



PHD

The evolution of and future prospects for distribution chain structures in the single European car market

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THE EVOLUTION OF AND FUTURE PROSPECTS FOR DISTRIBUTION CHAIN STRUCTURES IN THE SINGLE EUROPEAN CAR MARKET

**Submitted by Andrew George Tongue
for the degree of Ph.D.
of the University of Bath
1997**

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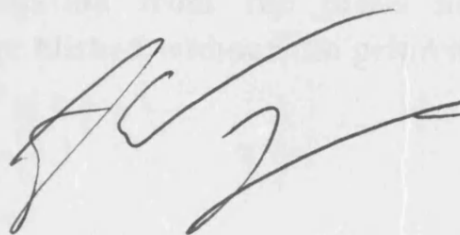
THE EVOLUTION OF AND FUTURE DISTRIBUTION TRENDS IN THE SINGLE EUROPEAN CAR MARKET

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SUMMARY

This research examines the emergence of new strategies and structures in the post-factory distribution chain of the European car industry, the area of the industry widely considered to be the key competitive battleground of the years ahead for automobile manufacturers, distributors and dealers.

Recent literature and industry sources reveal that, faced with intense competition to sustain car sales in a mature market region, companies have been under pressure to innovate throughout their distribution chains. The dominant conceptual framework for reform has been that of 'lean' thinking, which provides a paradigm encompassing the entire 'value stream' from supply, through production and on to distribution. Much literature has shown that many car companies across the world have been re-appraising the first two phases of their operations in accordance with this 'lean' paradigm; however, the post-factory end of the chain, which is also evolving in this respect, has been less researched. This work investigates this change process against the background of a persistent period of poor profitability for many chain actors, and also within the framework of the EU's attempts to create a Single Market in cars within its borders.

This research seeks to clarify what is understood by 'lean distribution' in a European context, and to determine and rank its most important elements. The research employed a variety of methods to examine both the character of the European distribution chain and the perceptions of the manufacturers, national distributors and dealers that go to make up this sector. On this basis, it identifies the central components of the 'lean distribution' paradigm in Europe. These are:

- moving from stock-push to customer-pull demand systems;
- establishing integrated computer-based communications systems between dealers, manufacturers, suppliers and other actors to enable information and order exchange;
- developing closer working partnerships between manufacturers and dealers.

The research also revealed, however, that the implementation of these factors is not and is unlikely to become uniform across the European market. 'Lean distribution' is found to vary primarily according to the type of product or service concerned, the distribution chain actors involved and particularly the environmental conditions of the local market area. These findings have considerable implications for future scholarly research into the European car industry and the Single Market as well as for those directly involved with the sector and its development.

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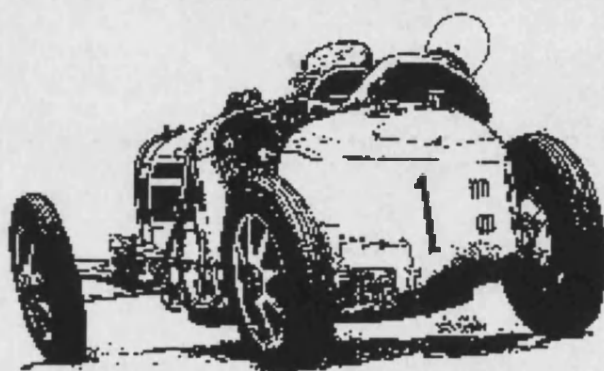
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CHAPTER 1

INTRODUCTION

" I think that cars today are almost the exact equivalent of the great Gothic cathedrals: I mean the supreme creation of an era, conceived with passion by unknown artists, and consumed in image if not in usage by a whole population which appropriates them as a purely magical object."

Roland Barthes, 1957: "Mythologies: la Nouvelle Citroën"

*"The motor car is closely linked with virtually all human activities and forms the most powerful driving force in our modern economies."*¹

Pun aside, there is little doubt that the automobile has become the most potent social, cultural and industrial icon of the developed world since its inception just over a century ago. Modern economies and lifestyles have become totally centred around the principle of individual personal mobility, a basic freedom defended world-wide even in the face of a potential environmental catastrophe being triggered by the burning of fossil fuels and the cluttering of our territories. The industry itself has developed a chameleon-like ability to adapt itself to changing market environments and consumer perceptions, meaning that few people could seriously envisage life without their car.²

As a product, the car has the ability both to fascinate and to repel. It can bring people together, stimulate prosperity and provide a source of joy, yet at the same time it can tear communities apart, kill and pollute. Despite a 20% reduction since 1975, 1991 still saw 50,240 people killed on Europe's roads.³ Beyond these truisms lies the inescapable fact that the car dominates our everyday lives, whether as a user or as a victim of others' use. The world is full of car experts; as one manufacturer pointed out during one of the fieldwork interviews, anybody who has ever sat behind a steering wheel immediately becomes an expert.⁴ All consumers have their favourite colours, makes and models whether for their dynamic qualities, for the dreams of a better life they symbolise or for the memory of a childhood outing that the car made possible.

And yet, in popular culture, our perception of the car is dominated by the actual product (Williams, K. et al, 1994), the car as it is seen out on the road, with scant regard given to the surrounding processes of manufacturing, how it got to be there in the first place, or selling, the fascinating matter of how that particular size, shape, colour and model of car came to be united with its driver. One of the miracles of the industrial revolution is now taken for granted, and whilst our High Streets sell posters of gleaming Ferraris and Porsches, few ordinary drivers would be interested in stopping to explore the steps which brought these legends, and their more everyday cousins, to life.

¹ FIA, 1989: p8

² Maxton and Wormald calculate that one day's worth of global vehicle production would produce a queue 400 miles long (Maxton, G. and Wormald, J., 1994).

³ ACEA, 1993: "The European Automakers", September, p3

⁴ European Specialist Manufacturer. Throughout this thesis, and because of the commercially sensitive data made available to the ICDP project, companies that participated in the fieldwork will be identified according to the categories 'European', 'Japanese', 'American' or 'Global' referring to their continent of origin, and 'Volume' (or 'Generalist') or 'Specialist' according to the type and scale of their production. For a fuller list, see Appendix XV

This creates a tough act for those conducting research into the industry and its related areas to follow. Such work will never have the same appeal as the glossy magazines which fill newsagents' shelves, as it inevitably has to divorce itself from the colourful, fantasy-rich images which sustain popular interest (Williams, K. et al, 1994). Whilst discussing cars themselves is a relatively straightforward exercise, the industry itself is complicated, multifaceted and, because of the extremely competitive nature of its market, highly secretive.

Tough it may be, but research into the car industry is vital. In the EU alone, the current parc of 135 million cars provides work for 9 million people, and it provides 6% of the Union's GDP. In four of the EU's car manufacturing countries, Germany, France, Italy and the United Kingdom, the industry accounts for around 10% of both manufactured exports and manufacturing employment.⁵ Taking all the advanced countries of the world together, the industry represents 10-25% of the manufacturing workforce, and accounts for 40% of the German and Japanese trade surpluses and the same proportion of the UK and American trade deficits.⁶ There is therefore a strong demand for insights into this volatile yet highly significant world not only from governments and public policy makers, but particularly from the companies actually involved in the industry.

Recent research has concentrated not so much on the importance of the industry as on the lengthy process of restructuring that it has been going through across the world, a process that is set to persist for at least another decade as the future shape of the industry and its markets slowly emerges. Greatly increased competition as the longer-established car markets reach maturity, the presence of new rivals from Japan and elsewhere (very often) setting the pace in the marketplace, new technology raising productivity to undreamt of levels and environmental, road use and other social considerations have all forced a whole range of mergers, alliances and rationalisations as many companies set in their ways for the majority of the 20th Century struggle to meet the new competitive conditions (Womack, J., Jones, D. and Roos, D., 1990; Assemblée Nationale, 1992). The sheer scale of the stakes was illustrated by an announcement made during the early stages of the research that General Motors, admittedly the largest corporation in the world, was having to close no fewer than 21 plants and shed 74 000 jobs in America alone⁷, and nowhere is this competitive pressure being felt more strongly now than in Europe, home to many homogeneously-sized car manufacturers (Banville, E. de and Chanaron, J-J., 1991).

There is nothing ground-breaking about an industry going through a phase of competition-

⁵ Shepherd, G., Duchêne, F. and Saunders, C., 1983: p114

⁶ Williams, K. et al, 1994: p2; Bhaskar, K., 1990: p10

⁷ Financial Times 20/10/92

induced restructuring, yet in the case of the car makers this has come at a time when the fundamental principles concerning the internal organisation of a factory, its upstream suppliers and its downstream distributors have been in the lengthy process of adapting to a new world standard (Womack, J., Jones, D. and Roos, D., 1990). Insights into the nature of the changes that are occurring and predictions for the likely outcome for specific manufacturers and regions have started to feature strongly in recent literature into the industry and form the central focus of this research.

The major car markets of the world are now recognised as having reached the maturity stage of their lifecycle (Levitt, T., 1991; Thomas, M., 1981; Maxton, G. and Wormald, J., 1994). This usually occurs as saturation points are reached and the scope for novelty and innovation within the product itself expires, although these criteria do not turn out to be strictly true for cars, as manufacturers have been obliged to innovate in order to attract or maintain their customers. Saturation levels have been the subject of a certain amount of speculation, and have been studied by many organisations, with the most reliable estimations being those of the OECD; 700 vehicles per 1000 people in the USA, 600 per 1000 people in Germany and France, and as few as 500 per 1000 people in Italy and Japan⁸, although this does not take into account the fact that, in all of these countries, saturation points have already been reached in certain urban areas. The majority of sales in such a situation are to customers replacing or adding to their vehicle stock rather than to first-time buyers (Bellenger, L., 1986(a); Bellenger, L., 1986(b)), which means that they require a great deal more effort on the part of the manufacturers, as the focus falls more and more on the complementary assets and service packages that differentiate products of similar prices and specifications (FIA, 1989). This has resulted in an intensification of competition in all the major markets of the world (Bhaskar, K., 1990), and should be viewed in conjunction with the parallel growth in environmental and road-use legislation (Calori, R. and Lawrence, P., 1991; INSEE, 1992; Culture Technique, October 1992) that could be considered as the car's belated socialisation process (Maxton, G. and Wormald, J., 1994).

⁸Assemblée Nationale, 1992: p61

Figure 1-1

PARC OF CARS IN USE IN EC AND MAJOR EUROPEAN COUNTRIES 1967-91⁹

Year	Cars in use - EC	Cars in use - "Big Four"	Cars per square kilometer - EC	Cars per square kilometer - "Big Four"
1967	45,952,454	39,575,326	20.5,0	33.6
1971	62,414,757	52,313,473	27.8,0	44.3
1975	77,007,125	62,770,844	34.3,0	53.1
1979	91,445,912	73,090,079	40.7,0	61.5
1987	116,004,474	93,379,698	52.1,0	80
1991	134,790,178	106,671,306	60.1,0	91
'Big Four' markets are Germany, France, Italy and the UK				

However, although the world's car markets are maturing, it could be said that the product itself is actually going in the opposite direction (Calori, R. and Lawrence, P., 1991). Although in the mainstream market segments the majority of cars have grown so alike as to become anonymous, there now exists a plethora of market niches containing vehicles designed according to the use that they will be put to, and many of these are being classed by their makers as 'leisure' vehicles. Some have suggested that the traditional means of segmenting the market according to size and engine capacity is becoming increasingly outmoded, and that in the future, cars will be segmented according to the use to which they will be put, with categories such as 'leisure', 'utility', 'city cars' etc. (Calori, R. and Lawrence, P., 1991) emerging as the niche concept comes to dominate the market and vertical segmentation gives way to this new horizontal alternative form (Hünerberg, R., Heise, G. and Hoffmeister, M., 1995)¹⁰. Such an outcome would tie in with the trend for Western households to own more than one car, opening up the possibility of having, for example, an environmentally-friendly commuting vehicle and a larger weekend vehicle. Furthermore, a vast array of new or resurrected technical solutions are being used by the manufacturers as they seek to meet the road-use and environmental challenges of the future (Culture Technique, 1992),¹¹ involving space-age materials, new power sources etc., all of which suggests that, despite it coinciding with a period of intense restructuring of the productive process, the car makers have not lost the ability for product innovation that has

⁹ Williams, K. et al, 1994: p181, quoting ILO and SMMT, various years

¹⁰ "Mercedes changes gear on the way to a less luxurious future", *Financial Times*, 27/01/93

¹¹ *Financial Times*, 09/09/93

so characterised the industry since its birth (Altshuler, A. et al, 1985; Womack, J., Jones, D. and Roos, D., 1990).

Nevertheless, the inescapable stage that the markets have reached means that the 'traditional' product quality/price attributes employed by the manufacturers in their promotional strategies have been replaced by an interest in the whole 'bundle', that is to say, the product plus the service back-up, specialised knowledge, customer care and other hitherto peripheral benefits that the purchase of the product confers (Normann, R., 1986; Nicoulaud, B., 1989; Bellenger, L., 1986(a); Bellenger, L., 1990). Customer satisfaction, or ensuring that the buying and owning of the product is as hassle-free as possible, has therefore become a key factor in the 'servitization' of business (Vandermerwe, S. and Rada, J., 1988; Müller, W., 1991; Bellenger, L., 1990), and strategies usually reserved for purely tertiary sector companies have become a competitive necessity for manufacturers of all kinds of goods as the need to build up brand loyalty among their customers grows (Vandermerwe, S. and Rada, J., 1988; Normann, R., 1986; Lele, M. and Sheth, J., 1987).

*"To the potential buyer, a product is a complex cluster of value satisfactions. The generic thing is not itself the product; it is merely, as in poker, table stakes - the minimum that is necessary at the outset to give its producer a chance to play the game. It is the playing that gets the results, and in business this means getting and keeping customers."*¹²

Some have suggested that manufacturers therefore need to adopt an integrated approach to all aspects of their marketing and distribution (Lele, M. and Sheth, J., 1987), to ensure that the whole post-factory system functions as effectively as possible.

It therefore became very clear from the early literature survey that this whole area *en aval* of the factory, including dealers, service providers and of course the customer himself, despite not having been widely covered in the literature, was certainly the one that would play the decisive role in determining the future shape and size of the European car industry, and as such, would merit a considerable amount of further study.

"The next five years will put more pressure on marketing, advertising and retail delivery systems to come up with the differences to the consumer who will more than ever realise that he is in the driving seat. For the immediate future - as the products become more alike in

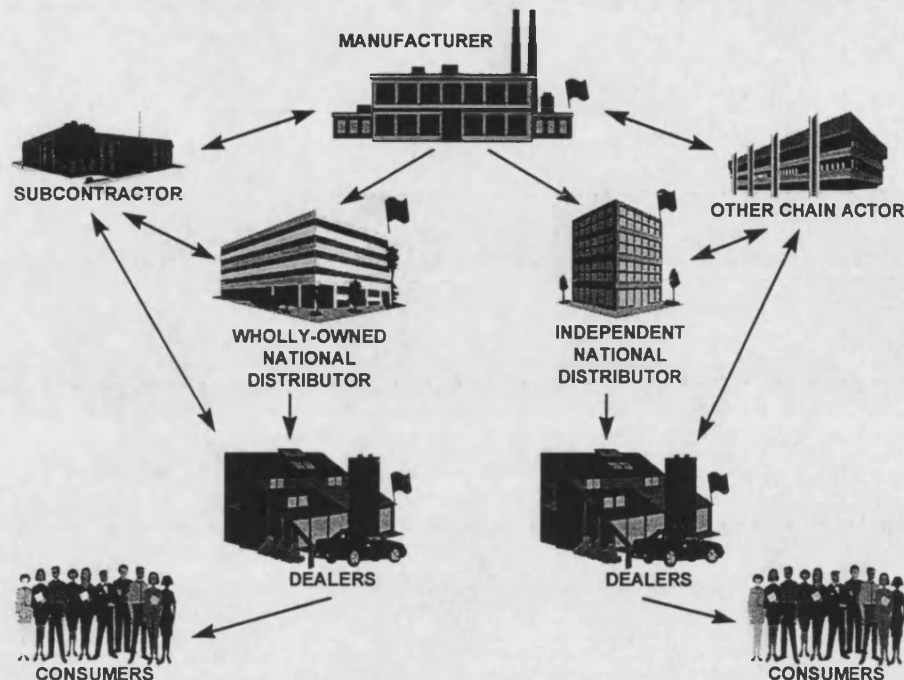
¹²Levitt, T., 1991: p67

*features and quality - the challenge will be for retailers to provide the difference in the customer's selection process."*¹³

So, conducting this research into the European car industry has required the researcher to develop a new personal perception of the automobile, adding to a starting point as a simple if passionate enthusiast of the product, especially in its pioneering and more exotic guises, the critical and analytical gaze, the dispassionate understanding of 'the wider picture' so essential for a successful piece of research.

Following preliminary research into the industry both in Europe and globally, it was decided to focus the research on the post-factory end of the industry. This was because the literature suggested that the industry would be increasingly focusing itself on this; and also because very little research had been conducted into whether 'lean' thinking had yet permeated this area, and if so, how it was operating. Given the interconnections between different elements of the motor industry, where considering one topic in isolation proves to be extremely difficult (Banville, E. de and Chanaron, J-J., 1991), it was important to identify how to relate the focus of the research to wider issues. The key decision taken in this respect was to look at whether and how there was an organisational 'paradigm shift' underway in the industry away from the 'stock-push' regime of mass production and towards the 'demand-pull' philosophy of lean production and lean distribution (Womack, J., Jones, D. and Roos, D., 1990; ICDP, 1993(b) and 1995(h)). The essential organising concept, to be discussed in more detail later, was that of a constantly-evolving 'production and distribution chain' linking component suppliers to manufacturers to distributors to dealers to consumers (ICDP, 1993(b)). The movement towards a Single European Market, both as envisaged by policy-makers and in its incomplete reality, emerged as the context for the study, forming, as it does, the latest step in the process of European integration set in motion by the Treaty of Rome. The Customs Union, Common Market and now Single Market represent easily the biggest event in the post-war economic history of Western Europe, and the completion of a free Internal Market for cars has proved to one of the European Commission's key goals. The research questions and the fieldwork programmes were then developed accordingly.

¹³ J.David Power III (of JD Power Associates), speaking at the Financial Times London Motor Conference, 1989

*Figure 1-2***THE DISTRIBUTION CHAIN**

At the mid-point of the research programme, the researcher became aware of the work being conducted by the International Car Distribution Programme (ICDP), an independent research project looking into future directions for car retailing, distribution and after-sales. The project brings together motor industry specialists and academics based in Europe, the USA and Japan, and in its 1994 - Easter 1996 guise (ICDP 1), was sponsored by 28 organisations, including car manufacturers, dealer associations, other distribution chain actors and both the UK Government and the DG III of the European Commission.¹⁴

The aim of the 1994 - 1996 project (ICDP 1) was to provide the industry and those associated with it with a detailed and well researched analysis of the whole process of car selling and servicing - from factory to dealer to customer. The central pillar of this was an international comparison of franchised car distribution systems and their operation. From this, areas of best practice would be identified and examined, leading to the development of methods for improving the efficiency and effectiveness of current distribution structures, and also to the elaboration and evaluation of future distribution scenarios.

The research topics covered by the project were organised into three streams, two

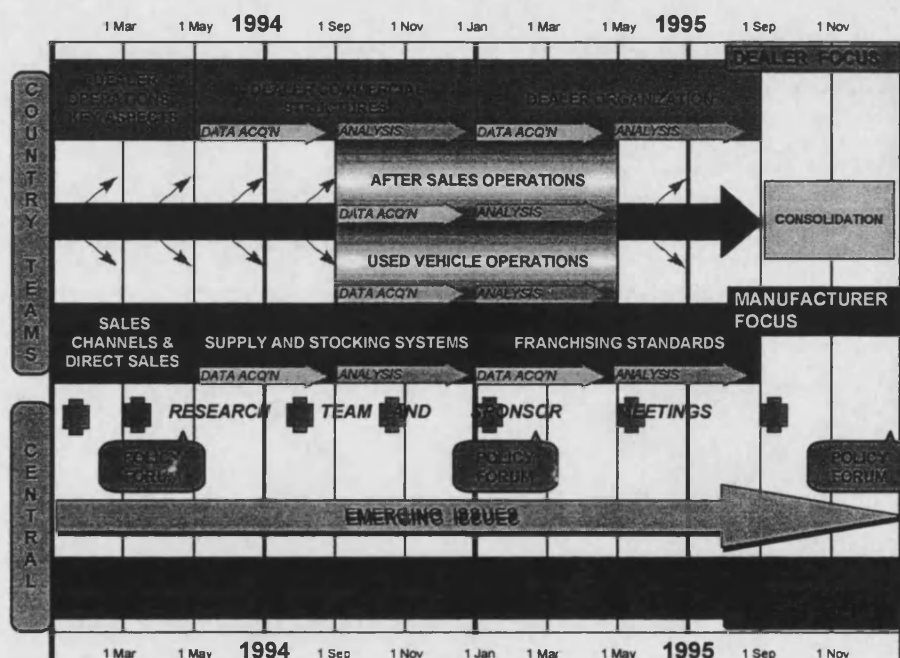
¹⁴

See Appendix I

conducted on a country by country basis, and a third taking more of a global overview, incorporating some of the lessons learnt at the national level and projecting them onto specific globally-relevant issues. The first two streams represented respectively dealer and manufacturer foci, and these were linked together by two overlapping topics, namely those looking at after sales operations and used car operations.

Figure 1-3

ICDP RESEARCH STRATEGY



Discussions between the researcher and ICDP project managers in early 1994 revealed many common areas of interest, and in a way reassured the researcher that the right area of the car industry for study had indeed been chosen. It was agreed that the researcher would conduct the project on the "Role of National Distributors", part of the 'global focus' strand (see chart) on behalf of the ICDP. This particular topic dovetailed very neatly with the doctoral research objectives, as it allowed the manufacturer-level fieldwork to be expanded significantly, taking in a broader range of manufacturers and national distributors than had previously been envisaged and removing at a stroke the problems of access to material and respondents that can often beset the lone researcher. The project eventually ran from Summer 1994 to May 1995 and its driving objectives are detailed in Appendix VI.

The ICDP made available large quantities of secondary literature which previously had

proved very difficult to obtain, as well as free access to its own research findings as they emerged from other areas of the programme. For the national distributor project, support was given with travel expenses, and contacts and interview respondents at the sponsor organisations were provided. The highly participatory nature of the project meant that the sponsor organisations were actively involved in regular 'policy forum' meetings and research briefings. These provided many opportunities for the researcher to present ideas and work in progress related both to the project and to the thesis, and to incorporate their feedback into the final results of each. Two major reports were published for the ICDP "Role of National Distributors" project, elements of which have been reported in this thesis.

Overall, this piece of research aims to provide an insight into how the emergence of 'lean thinking' has impacted on the European car distribution chain and on the manufacturers, importers and dealers present within it. It seeks to build up an understanding, based on shared knowledge, experience and grounded evidence, a firm platform from which to appreciate and to observe what is turning out to be a fascinating and critical period in the history of the industry as it enters its second century. On this basis, it also looks forward to how the industry could develop in due course.

The structure of the thesis henceforth broadly reflects the path taken through the research. It will firstly depict, through an examination of the relevant literature, the broad landscape of the car industry and influences present, the narrowing of focus onto the post-factory arena and the changes underway there, all set against the backdrop of attempts to create and maintain a single European market in cars. It then reviews and assesses the literature documenting the theory and the implementation of lean thinking in the production and distribution chain. Subsequent chapters outline the key research questions that emerge from this discussion, relating to the definition and implementation of lean distribution, and the chosen methodology for addressing them. There then follows the fieldwork chapters presenting the findings of the pilot survey, interview programmes, case studies and the final survey which defines the key elements of a lean distribution system, before the research questions are revisited. The thesis then goes on to consider thoughts, criticisms and suggestions for future work that have emerged from the research process, and finally to draw these threads together, pondering the scenarios that have been formulated for the future of the industry and offering some thoughts on the process of European integration.

The thesis will also adopt as informal a style as possible within the constraints of academic necessity. The highly contemporary nature of the subject matter and the rapid rate of change in the motor industry mean that research will age very rapidly if confined to a shelf,

and the researcher considers it important that the work be accessible to those who supported it from the industry, as well as to academics working in the area. It is hoped that, in this way, the research can have an impact on both the academic and industrial communities and their thinking.

"We do not make changes for the sake of making them, but we never fail to make a change once it is demonstrated that the new way is better than the old way."¹⁵

¹⁵

Henry Ford, quoted in "Ford in Europe", published by Ford of Europe

CHAPTER 2

LITERATURE REVIEW: GLOBAL AND EUROPEAN ASPECTS OF THE CAR INDUSTRY

"There is no doubt this motor business will be the boom of the next century."

S.F. Edge, writing in *The Autocar*, 1898

2-1 INTRODUCTION

A study of the literature, both academic and journalistic, surrounding the car industry reveals it to be subjected to a vast range of different trends and influences covering every sphere of economic activity. It could not possibly be hoped to account for all these factors, and indeed very few authors have ever attempted to do this since the earliest days of car production. Instead, the factors mentioned here are the ones which are currently, or which have recently generated discussion, and which are accepted as helping to shape the future of the industry at a time when it is undergoing the greatest period of upheaval since the invention of the 'horseless carriage' just over 100 years ago.

This chapter, sub-divided into 4 sections, opens with a discussion of the global environmental factors considered in current and recent literature to be shaping the future of the car industry and its markets. It then goes on to look in detail at the area of the industry which will feature most strongly in this research, the post-factory distribution chain, reviewing literature covering the distribution and marketing environments and strategies and structures that go to make up the post-factory networks with which the car manufacturers interact (Filser, M., 1992). The final two sections introduce the further framework used to delimit the research; the Single European Market. The impossible task of one researcher attempting to evaluate even small elements of the industry at a global level led to the selection of the European market as a suitable entity for study, although the research was able to be broadened in its latter stages.¹ These sections give a brief review of the background to European integration, putting into context the EU's² continued attempts to create a Single Market in people, goods and services within its borders, before moving on to consider coverage of the specific environmental factors that have been highlighted in the literature as constituting obstacles to the liberalisation of the EU car market; some of which have proved to be surmountable, some rather more complicated ...

¹ Most industry commentators, and indeed statistical records on sales figures and the like, consider the European market to include the 15 EU Member States plus the EFTA markets of Norway and Switzerland.

² In general, the phrases 'EC' (European Community) and 'EU' (European Union) used throughout this thesis are interchangeable. Where specific facts and figures are related to the EC, this refers to the 12-Member grouping that existed prior to the admission of Austria, Finland and Sweden; likewise figures related to the EU refer to the current 15 Member States.

2-2 A GLOBAL INDUSTRY AND A GLOBAL MARKET

Ever since its earliest years, the car industry has been international in its outlook. Indeed, Womack et al (Womack, J., Jones, D. and Roos, D., 1990) illustrate how even the very first, custom-produced models were often supplied to eager new owners in foreign countries. As the industry has grown, and new countries have started producing and buying cars, so scholarly attention has evolved to consider the paths being taken and the roles being played by the industry across the world. Over the last few decades, one of the main focuses of critical attention has been the spectacular growth of the Japanese and other Far-Eastern economies. One of the consequences of this has been the redrawing by many authors of the global economic map; this has joined with the plethora of literature on internationalisation and globalisation that has dominated research into foreign-trading companies and their markets for the last 25 years. As the car industry is increasingly talked about in 'global' terms, it is necessary to understand exactly what is meant by these references to the internationalisation of industry and markets.

The rise of multinational corporations, of which the car manufacturer is a prime example, the progress made in the field of technology and the development of large, international advertising agencies all gave rise in many schools of thought to the belief that the more products and processes can be standardised, the greater the economic benefits that the resulting economies of scale will provide (Mourier, P. and Burgaud, D., 1989; Levitt, T., 1991). This is cited by these and other authors as the driving force behind the spiralling internationalisation of business structures, a paradigm which can be traced right back to Henry Ford and the mass production methods enshrined both in his Highland Park plant (opened in 1913) that revolutionised the car industry overnight, and also in the mirror-image overseas operations (such as Dagenham in the UK) that he set up shortly afterwards (Womack, J., Jones, D. and Roos, D., 1990).

"Two vectors shape the world - technology and globalisation. The first helps determine human preferences; the second, economic realities. Regardless of how much preferences evolve and diverge, they also gradually converge and form markets where economies of scale lead to

*reduction of costs and prices."*³

The specific debate concerning the internationalisation of marketing and other distribution chain activities, the prime focus of this work, will be discussed in a subsequent section, and the leading exponent of both this field and that of 'pure' globalisation was Levitt (Levitt, T., 1983; Levitt, T., 1991), who argued that intensified competition and technology developments would drive companies to operate 'globally', targeting the 'global village' of consumers all looking for reliable, good quality products at a low price, thus allowing the producer to ignore 'superficial' national differences and achieve their longed-for economies of scale.⁴ This is the theory of 'globalisation pull', that a convergence of consumer profiles, desires and wealth levels will in turn pull the globalisation of the industries which supply them. Others have argued the case for 'globalisation push', that it is the globalisation of competition, the fact of companies planning their activities on a world-wide scale, that stimulates a convergence in the marketplace (Sheth, J., 1986). Both these discussions have prompted an enormous wealth of literature both in favour and against.

Many authors have pointed out the seemingly obvious point that world markets will never be truly homogenous whilst we speak different languages and enjoy different customs (Douglas, S. and Wind, Y., 1987; Sheth, J., 1986), but this is not necessarily an argument against an international coordination of company strategy; the latter is more influenced by the basic similarities between countries rather than by smaller cultural differences (Levitt, T., 1983). More recently, such 'pure' globalisation literature has been considered to be over-simplistic (Douglas, S. and Wind, Y., 1987), and a more nuanced approach has emerged, putting forward the idea that having a global strategy does not necessarily mean maintaining an identical strategy and homogeneous products in each market a company exports to or produces in (Douglas, S. and Wind, Y., 1987), and considering the forces facing companies to 'globalise' or to 'localise' their approach as opposite ends of a sliding scale rather than the stark either/or choice put forward in pure globalisation (Hamel, G. and Prahalad, C., 1985).

This concept has emerged as part of a concentration on actual industries as opposed to markets or to vague notions of competition. In the case of the car industry, it is the companies themselves who are becoming the driving force and the basic unit behind research, forever in the search for factors that might provide them with a competitive advantage over their domestic, and increasingly, international rivals. Porter investigated the notion that in a global trading situation, companies might actually have transcended

³ Levitt, T., 1991: p49

⁴ Summarised in Halliburton, C. and Hünerberg, R., 1993: p27

nations as the key factor in the success of a region, but concluded that the clustering of leading companies in a select few countries points to geographical circumstances, and the region's endowment of factors of production, still having the upper hand (Porter, M., 1990). This suggests that there is more to success in international trade than merely setting up factories across the world and achieving economies of scale (Douglas, S. and Wind, Y., 1987), and this ties in with a whole body of literature, including highly influential works by Porter (Porter, M., 1990), which suggests that it is necessary to examine each discrete operation that goes to make up the company whole, be it supply chain management, manufacturing, the nature of the product and its marketing, distribution and after-sales support, what Ohmae terms the 'business system' (see below) if one is to assess true the competitive position of a company, or an industry that is seeking to trade internationally (Douglas, S. and Wind, Y., 1987; Ohmae, K., 1985; Hamel, G. and Prahalad, C., 1985; Sheth, J., 1986)

Figure 2-1

THE BUSINESS SYSTEM⁵



Company strategy in this paradigm is dictated by the trading environment in which the firm operates (Porter, M., 1990; Miller, D., 1988; Filser, M., 1992), a consideration of which dictates in turn the structures the internationally-trading firm sets up, and the strategy it adopts with respect to the market and the competition. The results of this can then be

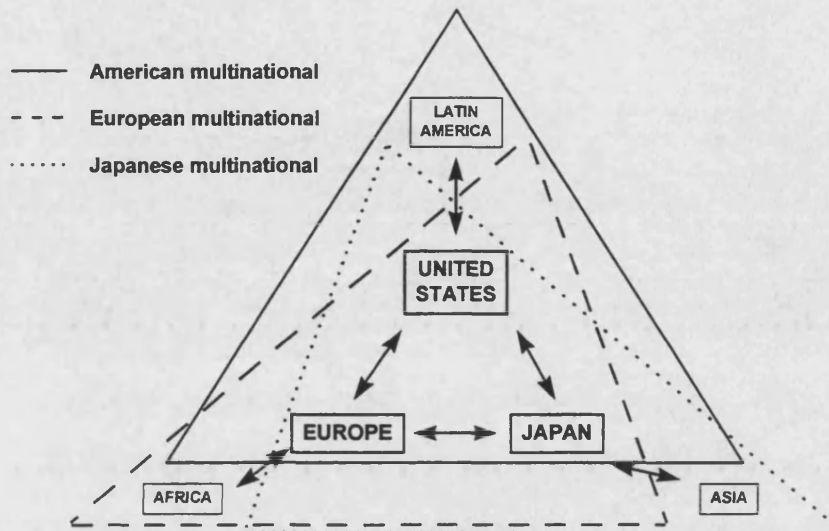
⁵ Ohmae, K., 1985: p34

observed in the company's subsequent performance. With respect to internationalisation of trade, a significant element of the environment is made up of the interplay between the forces to globalise, harmonise, or integrate company activities for the sake of economies of scale and efficiency benefits, and those to 'localise', to maintain local market differentiation of approaches in order to respond to identified needs of that market (Porter, M., 1990; Ruigrok, W. and Van Tulder, R., 1991). These forces will interact with the different company activities, as identified above, in different ways and to different extents, suggesting that there will be no one solution for a company seeking to rationalise its activities internationally; instead there may need to be a different approach to each activity according to its needs and its environment, and the resulting strategies will be located at different points along the global - local scale (Douglas, S. and Wind, Y., 1987; Hamel, G. and Prahalad, C., 1985; Sheth, J., 1986).

As shall be seen in subsequent sections of this chapter, the interplay of 'globalising' and 'localising' forces dominates discussion into the internationalisation of distribution and marketing activities, and also finds itself replayed in the debate over the effects of and ideal strategies to be adopted for the Single European Market. Given the complexity of the car industry, this 'unbundling' approach, as illustrated above, of separating out company activities in order to assess the factors affecting them, is emerging as a key strategy for all types of operation, and for the distribution and marketing chain in particular (Mercer, G., 1994; International Car Distribution Programme, 1995(h)). The dealer sector, as shall be illustrated in section 2-3-5-2, is already seeing examples of new organisational forms and activity groupings emerging from a reassessment of the place of each operation within a corporate whole, and this research will seek to demonstrate how this 'unbundling' and 'rebundling' approach is permeating the whole post-factory chain of the car industry.

One interesting, and for the car industry, particularly relevant offshoot from the discussion on the globalisation of companies and markets has been that related to the 'triad' structure formed by the 3 largest world markets, the US, Japan, and the European Union. Ohmae's concept, which has gained a great deal of attention, is that of the global 'triad' formed by the strong trading links and growing market homogeneity (in some products at least) of the three economic superpowers (the USA, Europe and Japan) (Ohmae, K., 1985).

Figure 2-2

THE TRIAD⁶

Just as with the theory of globalisation, this market convergence is largely attributed to education and technology in these three areas; as improvements in the former enables people to use more technology, which, by its nature, drives out previous country differences. Another factor cited by Ohmae in the emergence of the triad is the upheaval of factory processes, and the subsequent interaction between the manufacturing and service sectors in these major markets, which have both 'blurred the boundaries' of traditional economic wealth and power patterns.⁷ It is for this reason that this triad structure seems particularly relevant to the way the world car industry has developed in recent years (Womack, J., Jones, D. and Roos, D., 1990; Banville, E. de and Chanaron, J-J., 1991; Ruigrok, W. and Van Tulder, R., 1991), with all the major manufacturers of the world seeking as strong a representation as possible in all three corners of the triangle. Just as Chapter 3 will illustrate how 'Toyotism', the Japanese-inspired collection of new production methods has replaced the mass-production tenets of 'Fordism' (Altshuler, A. et al, 1985; Commissariat Général du Plan, 1990; Jacot, H., 1990), so many companies, and especially the Japanese trend-setters, are now displaying a trend that goes beyond standard globalisation theory, and which has been termed, amongst other things, global localisation (Ruigrok, W. and Van Tulder, R., 1991). In the past companies would produce all their cars

⁶ Ohmae, K., 1985: p122

⁷ Ohmae, K., 1985: p8

at a limited number of locations in the home country, thereby creating sufficient economies of scale to fund the task of exporting them to all the foreign markets (Womack, J., Jones, D. and Roos, D., 1990). In contrast, under the new system, the companies can exploit the enhanced inherent efficiency of the lean production process detailed in Chapter 3 by setting up fully fledged facilities and dealing with independent suppliers away from their home country; a decentralised system that enables their most important foreign markets can be served from close at hand, meaning that the product can be more suitably tailored to the particular needs of that market (Altshuler, A. et al, 1985), whilst the companies themselves remain free from, or at least less vulnerable to protectionism, exchange rate volatility and cyclical shifts in demand. This process of building up a 'triad presence' accurately describes the paths taken by several of the Japanese companies in their internationalisation strategies over the last few years (Mair, A., 1994). By way of an example, one only has to consider the number of design studios set up by these Japanese companies in California, and now in Europe as well, that spend their time monitoring consumer tastes, styles and fashions. Very often they are then allowed to design and control the production of new models, especially those destined for niches in the market, without any influence from the mother ship in Japan. This is a very different approach from that traditionally attributed to the 'multinational enterprise', which would treat 'abroad' as if it were an extension of the home market (Maxcy, G., 1981).

Several authors have sought to codify the differences between 'traditional' global companies and those which have adopted these newer, more decentralised forms. A study of this nature was carried out by Calori and Lawrence, categorising industries according to the degrees of globalisation and localisation forces exerted on them, in a work which concludes by forecasting an increase in the former and a decrease in the latter, especially in the case of cars (Calori, R. and Lawrence, P., 1991). As shall be seen, the fact that the European car makers in general have a great deal of localisation forces tying them to their national markets means that their desire to establish a global (or 'globally local') presence will not be easy to fulfil. Porter talks about coordination and dispersal of activities to and from the local, regional and global levels (Porter, M., 1990), and both Calori and Lawrence and Hamel and Prahalad define the process of identifying a competitive opening in a foreign market as a 'search for loose bricks' (Calori, R. and Lawrence, P., 1991; Hamel, G. and Prahalad, C., 1985).

Much work has also been devoted to creating new categories and names for describing these emerging organisational forms. For instance, Ohmae distinguishes between traditional 'multinational' corporations, with the headquarters very much in control, defining strategy for the foreign subsidiaries to follow and with very little scope for

regional or transnational synergy; 'multilocal' companies, meaning a grouping of strong, highly autonomous national operations which may suffer from a lack of central coordination or risk 'reinventing the wheel' if the full set of business functions are present within each market; or 'multiregional' companies, essentially a grouping of local operations 'bundled up' into a regional headquarters which would then interact with the other regions in the triad.⁸ The most natural progression under the triad paradigm would be for traditional multinational companies to become multiregional, and this is indeed observable in the car industry (Womack, J., Jones, D. and Roos, D., 1990) with the growth of 'distant' production facilities and regional headquarters as the major manufacturers realise that they cannot rely on their domestic continent, let alone their home market for survival.

*"Those who will be firmly established in each of the three above-mentioned economic spaces (North America, Japan/South-East Asia and Europe) will no doubt be in a better position than others to come out of it all without loss in this unpredictable world. But this possibility will be given only to the multinational giants. The others will have to enter into alliances in order to pool their best technical assets and their distribution networks, each producing in his own geographic sector."*⁹

Under such a situation, the global company headquarters becomes more of a coordination point for the various regional centres and decentralised manufacturing operations, lubricating the many wheels within the corporation. Ohmae defines this role;

*... "by the synergy it can provide to keep its key operating units flexible and responsive to the marketplace. The scope of this role is defined by finding out where the most value-added increment can be brought about by the corporate functions."*¹⁰

Wind et al and Keegan tackle the issue a different way, identifying four stages through which companies in the process of internationalising their operations must pass: ethnocentrism (concentration on the home country market), polycentrism (where subsidiaries in overseas markets develop their own marketing plans), regiocentrism (where the company treats a region as one, large, border-free market, and standardises products and marketing accordingly), and geocentrism (much the same, but at a global level) (Wind, Y., Douglas, S. and Perlmutter, H., 1973; Keegan, W., 1989; Hünerberg, R., Heise, G. and

⁸ Ohmae, K., 1985: p181-185

⁹ Bernard Vernier-Palliez (ex-Renault) in FIA, 1989: p24

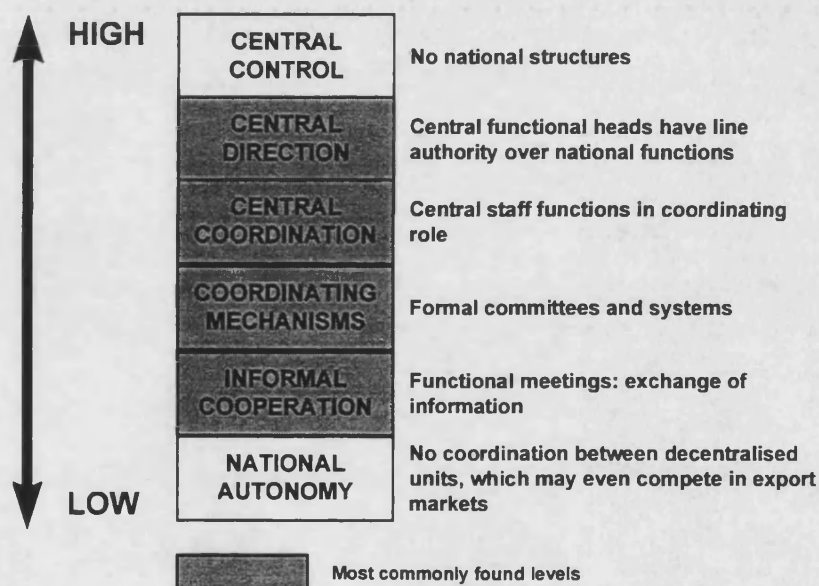
¹⁰ Ohmae, K., 1985: p181

Hoffmeister, M., 1995).

Halliburton and Hünenberg point out that a central step towards establishing organisational options for the future is the consideration of 'alternative integrating mechanisms' which enable a balance between central control and local autonomy to be reached. This implies the investigation of alternatives to simply shifting accountability from a national- to a European-level manager, and the solutions that are adopted will depend on the history and culture of the company and also of its different departments and units (Halliburton, C. and Hünenberg, R., 1993).

Figure 2-3

LEVELS OF INTERNATIONAL COORDINATION¹¹



For the car industry, this ties in with the notion of the 'extended lean enterprise' outlined in section Chapter 3 which would see the car maker of today become the car-making 'process coordinator' of tomorrow, with the task of managing the relationships with all the various plants and supply 'partners' and of assembling their inputs into the final product and accompanying service package (Banville, E. de and Chanaron, J-J., 1991; Meyer, A. de, 1992). An example of just how far the industry has gone down this global route is provided by a brief look at the sources of some of the inputs into Ford's Mondeo (as it is

¹¹ Halliburton, C. and Hünenberg, R., 1993: p248

known in Europe¹²).

Figure 2-4

FORD MONDEO: GLOBAL STORMING¹³

Bodyshell	Genk, <i>Belgium</i> Kansas City, <i>USA</i>
Engines:	
<i>Zetec (Zeta)</i>	Bridgend, <i>Wales</i> Chihuahua, <i>Mexico</i>
<i>V6</i>	Cleveland, <i>USA</i>
<i>Diesel</i>	Dagenham, <i>England</i>
Transmissions:	
<i>Manual</i>	Halewood, <i>England</i> Cologne, <i>Germany</i>
<i>Automatic</i>	Batavia, <i>USA</i>
Power steering pump	Indianapolis, <i>USA</i>
Air-conditioning parts	Charleville, <i>France</i> Basildon, <i>England</i> Connorsville, <i>USA</i> Plymouth, <i>USA</i>
Anti-intrusion door beams	Lulea, <i>Sweden</i> Monroe, <i>USA</i>

Of course, not all car manufacturers have yet become global or 'globally local' in their operations, but the fact that even niche producers such as BMW and Mercedes-Benz who had previously relied on an export strategy have recently set up production facilities away from their home continent shows that this development has had a very significant influence.¹⁴ It also serves to demonstrate that, with a large chunk of the world car industry displaying a triad structure made up of the American, Japanese and European industry and markets (Womack, J., Jones, D. and Roos, D., 1990; Banville, E. de and Chanaron, J-J., 1991), a company selling to more than one triad market will not just base its competitive strategy on its 'home corner' experiences, but will need to take into account and synthesise the factors and influences present in all 3 areas. So, despite the fact that this research

¹² A similar model is sold in North America under a different name

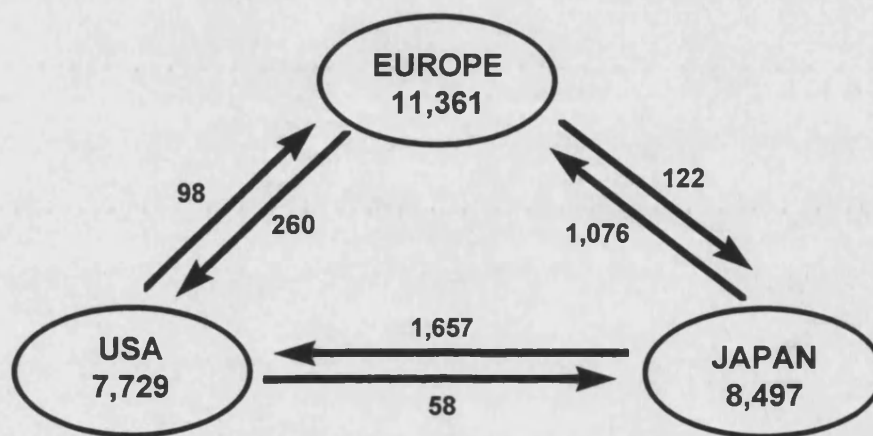
¹³ Car Magazine, February 1993: p47

¹⁴ Both Mercedes-Benz and BMW have now established fully-fledged production facilities in the US, which will export to Europe and to Japan.

concentrates on the European market, it is nevertheless essential to consider these complex webs of wholly-owned facilities, alliances and joint ventures that car companies maintain across the globe, just as it is to remember that what a company does in Europe could quite easily be the result of a lesson learnt in America.

Figure 2-5

CAR TRADE IN THE TRIAD, 1994¹⁵



Car trade in the triad in thousands of units, 1994

Many more authors have concentrated on the European market, or at least upon the impact that these emerging global structures will have on Europe's manufacturers. Most conclude that further waves of rationalisation will continue to strike the industry in the years ahead, and that the successful companies of the future will be those which are able to learn the lessons and respond to the challenges both of the lean production revolution¹⁶, and also of the growing web of global relationships that are shaping the future of the industry (Womack, J., Jones, D. and Roos, D., 1990; *Assemblée Nationale*, 1992; Bricnet, F. and Mangolte, P-A., 1990; Jacot, H., 1990).

"In a global industry only the global players will survive. So far, the European-owned mass producers have failed to become global car

¹⁵ Hünerberg, R., Heise, G. and Hoffmeister, M., 1995: p12

¹⁶ See Chapter 3

makers. Given the march of Japanese inward investment into Europe the pressure on the big six European makers - GM, Ford, Peugeot-Citroën, VW, Renault, and Fiat will intensify, and it is only a matter of time before mega-alliances occur between these firms. The global industry is dominated by GM, Ford and their associates on the one hand and Toyota and Nissan on the other. Unless the West European firms react positively to the increased competitive pressure they will remain regional European producers, vulnerable to the advance of the global players."¹⁷

2-3 GLOBAL AND EUROPEAN ASPECTS OF THE POST-FACTORY CHAIN

2-3-1 THE IMPORTANCE OF THE POST-FACTORY CHAIN

As has been discussed, competition in the global car industry is set to shift away from traditional product attributes and on to the complementary assets that the manufacturers provide to entice and retain their customers, including the quality of the buying experience. This is not coincidental, since the whole area of post-factory activity is the only one to have escaped the 'lean production' revolution, or at least until recently. This was probably due to the fact that rationalisation in the post-factory area is even more complicated than on the shop floor, but this does not imply that the distribution and selling of cars is incompatible with 'lean' thinking (Womack, J., Jones, D. and Roos, D., 1990). Just as few companies have yet adopted many of the elements of lean distribution, which include building the customer's tastes and preferences directly into the production process by doing away with the stocks of cars held by individual dealers, and instead using the customer's order of a particular specification of car to actually trigger its production back at the factory, so few

¹⁷

National Consumer Council, 1990: p17-8

authors have yet focused on this area where a great deal of change is already underway.

This area is recognised as the one to which the manufacturers have traditionally devoted the least amount of attention; indeed, selling and marketing techniques have gone virtually unchanged for the last 80 years since yearly model updates and credit facilities were introduced by Alfred Sloan at General Motors in the 1920s (Womack, J., Jones, D. and Roos, D., 1990; Lamming, R., 1990; Stern, L. and Sturdivant, F., 1987; Hünerberg, R., Heise, G. and Hoffmeister, M., 1995). This is despite the fact that, in 1993, 1.7 million people were employed in the distribution and repair of cars across Europe, roughly the same amount again as those employed in the manufacture of cars.¹⁸ So, it is not surprising that this is also the area where they have the most to lose in terms of reputation (Lele, M. and Sheth, J., 1987). Only recently has it dawned on the car companies that there exists a tremendous potential for offering their prospective customers a less confrontational purchasing experience and a 'hassle-free' ownership, features that will do no harm to the chances of the consumer returning to the same company for their next car, something that certain car makers have realised before the others (Simon, H., 1992; Bellenger, L., 1990). The process of buying and owning a car, one of the most important financial decisions a person is likely to make in their life after buying a house (Levitt, T., 1991); is not only very complex, it also involves a great deal of other elements that go to make up the 'bundle', such as warranties, the need for regular maintenance, special equipment options, credit terms etc.

*"The actual process of buying a car is inherently a stressful experience, particularly for women. It is the largest purchase that we make, apart from a house; it is an infrequent purchase; it is technically complex and there is a wide range of choice from suppliers of differing reputations and images. More importantly, it is a huge emotional decision. The car is not only an essential tool of everyday life - 81% of motorists say they would find it very difficult to adjust their lifestyle to being without a car. It is also an expression of our personality. So we need to be reassured when we buy a car that we are making the right decision both in terms of the utilitarian dimensions and in terms of the image that it conveys to our family and friends."*¹⁹

This implies that the car industry is indeed conforming to the trend towards the 'servitization of business' as discussed earlier (Lele, M. and Sheth, J., 1987; Levitt, T.,

¹⁸ Martin Bangemann in Hünerberg, R., Heise, G. and Hoffmeister, M., 1995, p33

¹⁹ Sir Trevor Chinn, Chairman of Lex Service plc, speaking at the Financial Times World Motor Conference, Frankfurt, 8/9 September 1993

1991), and also that manufacturers will therefore be obliged to play a much bigger part in the post-factory activities that are carried out in their name (Womack, J., Jones, D. and Roos, D., 1990; Stern, L., Sturdivant, F. and Getz, G., 1993; Ruigrok, W. and Van Tulder, R., 1991). This is seen as a further contributory factor in the rationalisation of the post-factory sector (Gogel, R. and Larréché, J-C., 1989; Assemblée Nationale, 1992) and also, as shall be discussed later, one which is likely to come into conflict with the increasing status of the actors in the post-factory chain themselves (Bellenger, L., 1986(a); Assemblée Nationale, 1992; Calori, R. and Lawrence, P., 1991).

*"Products are always combinations of the tangible and the intangible. An automobile is not simply a machine for movement visibly or measurably differentiated by design, size, colour, options, horsepower or miles per gallon. It is also a complex symbol denoting status, taste, rank, achievement, aspiration and (these days) being 'smart' - that is, buying fuel economy rather than display. But the customer buys even more than these attributes. The enormous efforts of the auto manufacturers to cut the time between placement and delivery of an order and to select, train, supervise and motivate their dealerships suggest that these too are integral parts of the products people buy and are therefore ways by which products may be differentiated."*²⁰

For the manufacturers, a responsive and accurate post-factory system can only help to build marque loyalty, especially if the customer signs up for long-term warranties and maintenance agreements (Lele, M. and Sheth, J., 1987). In this way the manufacturers will increasingly resemble market-driven service companies, tailoring their products and the accompanying services to what their customers actually want, rather than producing what they think they will accept (Womack, J., Jones, D. and Roos, D., 1990). The lack of this system in the past is put forward as one of the main reasons why the Japanese car makers were able to gain such a foothold in the American market in the wake of the 1973 oil crisis; they took the time and trouble to find out what sort of cars Americans really wanted to be driving, as opposed to the Big Three, who continued to churn out their fuel-thirsty 'dinosaurs' regardless of the fact that the tide of customer taste had turned against them (Levitt, T., 1991). It is ironic that the first car maker really to employ this thinking (long before the oil shock) is the one generally understood to have cared the least about the welfare of its customers: Henry Ford. According to Levitt, Henry Ford was the pioneer of this market-driven approach with his Model T. Whereas it is commonly understood that Ford perfected a production process which meant that his cars could be sold for \$500 each,

in fact it was the other way around: he realised that if he offered his car for sale at \$500, then millions of potential car-owners would be able to buy one. He then developed the production system that could make the car at the appropriate cost, one of the consequences of which was that only the colour black, the cheapest and quickest-drying, could be offered (Levitt, T., 1991).

2-3-2 GENERAL DEVELOPMENTS IN THE MARKETING OF CARS

A great deal has been written on distribution and marketing structures and strategies, both within the context of the internationalisation or globalisation of trade, and also specifically within the framework of the Single European Market. Whilst distribution and marketing constitute very different activities each involving highly specific skills, within the car industry they function together very much as a whole, and thus are often treated together (Banville, E. de and Chanaron, J-J., 1991).

As the mature state of the world's major car markets typifies, customer satisfaction, or ensuring that the buying and owning of the product is as hassle-free as possible, has become a key factor in an observed trend known as the 'servitization of business' (Vandermerwe, S. and Rada, J., 1988; Müller, W., 1991; Bellenger, L., 1990). Strategies usually reserved for purely tertiary sector companies have become a competitive necessity for manufacturers of all kinds of goods as the need to build up brand loyalty among their customers grows (Vandermerwe, S. and Rada, J., 1988; Normann, R., 1986; Lele, M. and Sheth, J., 1987), and many have pointed out that this means companies having to adopt a more committed approach to all aspects of their marketing and distribution (Lele, M. and Sheth, J., 1987; Porter, M., 1990; Stern, L. and El-Ansary, A., 1982), to ensure that the whole post-factory network functions as effectively as possible.

Some authors, such as Levitt have argued that globalisation can also apply to marketing and distribution strategy, and that no one regional market segment is likely to be unique, but will have close equivalents elsewhere in the world that can be targeted and supplied in a similar way, thus providing the producer with economies of scale (Levitt, T., 1983; Levitt, T., 1991). Others take a more nuanced view that, whilst global market segments can be identified, and indeed are growing, these are usually confined to very specific areas

such as high value-added luxury goods (perfumes, clothes, even luxury cars), technology-related items (computers, video cameras) or brands which, through their exposure in films and on television, have successfully been exported from the US (Ohmae, K., 1985; Peebles, D., 1989; Lynch, R., 1992; Keegan, W., 1989; Kotler, P. and Armstrong, G., 1989). Douglas and Wind caution against considering even one country as a homogeneous entity, pointing to differences in consumer tastes and preferences across the US (Douglas, S. and Wind, Y., 1987). As we shall see, this argument, however obvious, between homogeneity and diversity has been replayed many times over at the European level, but again, it illustrates the move recent literature has taken away from considering globalisation as an 'all or nothing' strategy and towards the conceptualisation of a global-local continuum, with companies adopting different points along the scale for the different activities, including those that are connected with distribution and marketing, that go to make up their corporate whole (Porter, M., 1990; Ohmae, K., 1985; Hamel, G. and Prahalad, C., 1985). Many different approaches to the issue have been adopted: for instance, Quelch and Hoff suggest that strategy can be arrived at by separating out business functions (such as manufacturing, R&D and accounting), the actual product and the extent to which it is culture bound, and the size and demographic profile of the markets under consideration (Quelch, J. and Hoff, E., 1986). Sheth concentrates on the product, and differentiates between global competition, which certainly exists in some sectors, and global markets, which generally do not. Instead, he develops the concept of 'multiple markets', which a company can target either by modifying the product slightly to suit local tastes (product segmentation), by aiming the product at different population segments in different markets (market segmentation), or by offering the product to entirely different markets in different countries (speciality segmentation) (Sheth, J., 1986). Basically, however, the vast majority of recent literature operates from the starting point of the 'marketing mix' (Keegan, W., 1989), defined by Kotler and Armstrong as the 'Four Ps'; product (both the features of the brand itself but also the accompanying service packages), place (distribution networks), promotion (advertising and promotion related to the product) and price (Kotler, P. and Armstrong, G., 1989), and goes on from there to discuss the implications of internationalisation on each of these elements. Ohmae sums this up by commenting that

*"managing in a borderless world doesn't mean managing by averages. It doesn't mean that all tastes run together into one amorphous mass of universal appeal. And it doesn't mean that the appeal of operating globally removes the obligation to localise products. The lure of a universal product is a false allure. The truth is a bit more subtle."*²¹

One dichotomy that reveals itself as particularly significant for the car industry in the context of this work is that between the caveats against the wholesale standardisation of distribution and marketing strategy across international markets that have dominated the literature, and of which a sample is given above, and the assumptions, based on empirical work, surrounding the Single European Market Programme that significant cost savings could be reached following the consolidation of distribution and marketing by companies at the pan-European level (Cecchini, P., 1988).

Some authors have considered one of the predicted related effects of the creation of the Internal Market, namely an acceleration of the globally-observed convergence of consumer tastes and preferences into specific market niches. By way of evidence, some suggested that certain 'post-cultural' habits, such as shopping for frozen foods in supermarkets, playing computer games and watching television in the evenings and buying jeans and compact discs at weekends have become similar across Europe (Makridakis, S., 1991; Rigoureau-Juin, A. and Kerrad, M., 1993). However, this is only true of certain sectors of the population (mainly the young) and of certain purchasing decisions (usually leisure or technology-related), and one only has to examine factors such as the responses of different cultural groups to major events such as births, deaths and marriages to appreciate that the European population is essentially as differentiated as it ever was (Makridakis, S., 1991; Scardigli, V., 1989). Again, it can be expected that technical innovations and the advance of information technology (such as cable television and minitel systems), will cause an acceleration in this convergence, but most authors concur that, in the consumer market at least, Europe will remain the mosaic of different cultures and lifestyles that makes it unique amongst the world trading blocks (Scardigli, V., 1989; Lynch, R., 1992; Halliburton, C. and Hünerberg, R., 1993). Whitelock and Chung even go so far as to state that pan-European advertising will be the exception rather than the rule (Whitelock, J. and Chung, D., 1989). Local tastes and preferences are not, as Levitt might suggest, vestiges of the past (Levitt, T., 1991), as the many examples of the wealth disparities between the rich and poor areas of the EC indicate. The Commission itself admits that the average per capita income in the Community's 25 richest regions is two and a half times greater than in the 25 poorest,²² and attempts to reduce these inequalities take up a sizeable proportion of the Community's time and resources (Rigoureau-Juin, A. and Kerrad, M., 1993). Nevertheless, it is agreed that certain market segments will support, and have been witness to the introduction of pan-European brands and services (Rigoureau-Juin, A. and Kerrad, M., 1993; Daser, S. and Hylton, D., 1991; Mourier, P. and Burgaud, D., 1989). Apart from this increase in pan-European purchasing which will foster a greater interest in global products

²²Commission of the European Communities, 1991: p12

and brands as well as a 'made in Europe' mentality, further changes expected to occur in Euro-consumer behaviour include increased price sensitivity (which might lead to more price harmonisation), calls for better service back-up and greater mobility (Vandermerwe, S., 1989(a); Calori, R. and Lawrence, P., 1991).

Talk of convergence has led to work searching for different ways to frame or segment the European market for the construction of distribution and marketing strategies, prompting a move away from the traditional geocultural boundaries used by marketers.

Figure 2-6

TRADITIONAL GEOCULTURAL GROUPS²³

<i>Nordic Countries</i>	Denmark, Norway, Sweden, Finland
<i>Anglo-Saxon Countries</i>	UK, Ireland
<i>Central European Countries (Lutheran)</i>	Germany, Belgium, Luxembourg, Austria, Switzerland
<i>Mediterranean Countries</i>	France, Greece, Italy, Portugal, Spain

In their place have come systems which replace the notion of nation state with other criteria, such as wealth, ethnic background, geographical situation, social status, etc. (Vandermerwe, S. and L'Huillier, M-A., 1989; Makridakis, S., 1991; Lynch, R., 1992).

*"Instead of either one, single homogeneous market or a collection of small specialised markets, the most likely model for the future mass Europe is a market system consisting of regional Euro-clusters with customers geographically close but not necessarily living in the same country. They will have the same or similar economic, demographic and/or lifestyle characteristics ... differences among customers will exist, but will not be nationally determined."*²⁴

These attempts at new forms of market segmentation must, however, be balanced against the reality of the legislative framework of the European market. Even in instances where a pan-European approach is possible and desirable (as it is already for certain products such as consumer electronics, supermarket items, etc.), companies are constricted both by the lack of a single, supranational legislative framework governing areas such as advertising,

²³ Makridakis, S., 1991: p255

²⁴ Vandermerwe, S., 1993: p56

and also by the unequal availability of marketing media in different European markets (Dudley, J. and Martens, H., 1993). For instance, despite the \$50bn spent on advertising every year, none of the 23 Directorate Generals of the European Commission actually specialise in the area. Legislation therefore emanates very much in piecemeal fashion according to whichever sector is involved or affected.

The advertising industry itself has been consistently opposed to any further attempts by the Commission to legislate in the area, and instead remains committed to self-regulation. However, this balance may be upset by the recent wave of international take-overs and mergers instigated by the largest advertising agencies, determined to achieve pan-European coverage, since this will inevitably lead to calls to level out the playing field as much as possible. In the meantime though, the European advertising market will remain a myriad of different national regulations and practices, all of which mean that the objective of harmonised pan-European advertising campaigns will not be anywhere near as straightforward, and possibly not even as advantageous, as has been predicted over recent years (Calori, R. and Lawrence, P., 1991; Halliburton, C. and Hünerberg, R., 1993). By way of example, Figure 2-7 shows which promotional tactics are authorised in the general retailing sector in each Member State of the EC12.

Figure 2-7

PROMOTIONAL TACTICS AUTHORISED IN EU MEMBER STATE MARKETS²⁵

	UK	IRL	E	D	F	DK	B	NL	P	I	G	L
On-pack price reduction	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Banded offers	✓	✓	✓	?	✓	✓	?	✓	✓	✓	✓	×
In-pack premiums	✓	✓	✓	×	?	?	?	?	✓	✓	✓	×
Multiple-purchase offers	✓	✓	✓	?	✓	✓	?	✓	✓	✓	✓	×
Extra product	✓	✓	✓	?	✓	✓	✓	✓	✓	✓	✓	✓
Free product	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Usable/alternative-use packs	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Free mail-ins	✓	✓	✓	×	✓	?	?	✓	✓	✓	✓	?
With-purchase premiums	✓	✓	✓	×	✓	?	?	?	✓	✓	✓	×
Cross-product offers	✓	✓	✓	×	✓	?	×	✓	✓	✓	✓	×
Collector devices	✓	✓	✓	×	✓	?	?	✓	✓	✓	✓	×
Competitions	✓	✓	✓	?	✓	?	✓	✓	✓	✓	✓	?
Self-liquidating premiums	✓	✓	✓	✓	✓	✓	✓	?	✓	✓	✓	×
Free draws	✓	✓	✓	×	✓	×	×	×	✓	✓	✓	×
Share-outs	✓	✓	✓	×	?	×	×	×	✓	?	✓	×
Sweepstake/lottery	?	?	?	×	?	×	×	×	?	?	?	×
Money-off vouchers	✓	✓	✓	×	✓	?	✓	✓	✓	?	✓	?
Money-off next purchase	✓	✓	✓	×	✓	×	✓	✓	✓	?	✓	×
Cash backs	✓	✓	✓	?	✓	✓	✓	✓	✓	×	✓	×
In-store demos	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
✓ permitted	✗ not permitted						? may be permitted					

The overriding impression from the literature in this area is of the complexity of the Union and of its people. Whilst there is clear evidence of a convergence of lifestyles, this is by no means a uniform phenomenon across the market, and so any attempts to harmonise strategy, of instigating a pan-European marketing campaign or an integrated distribution system risks only pleasing part of the consumers the company wishes to target (Calori, R. and Lawrence, P., 1991). As with the discussion of the global arena therefore, the literature devoted to the European market therefore seeks to situate, to measure, or to shine a path through the tug-of-war between the forces to harmonise, or standardise an activity across

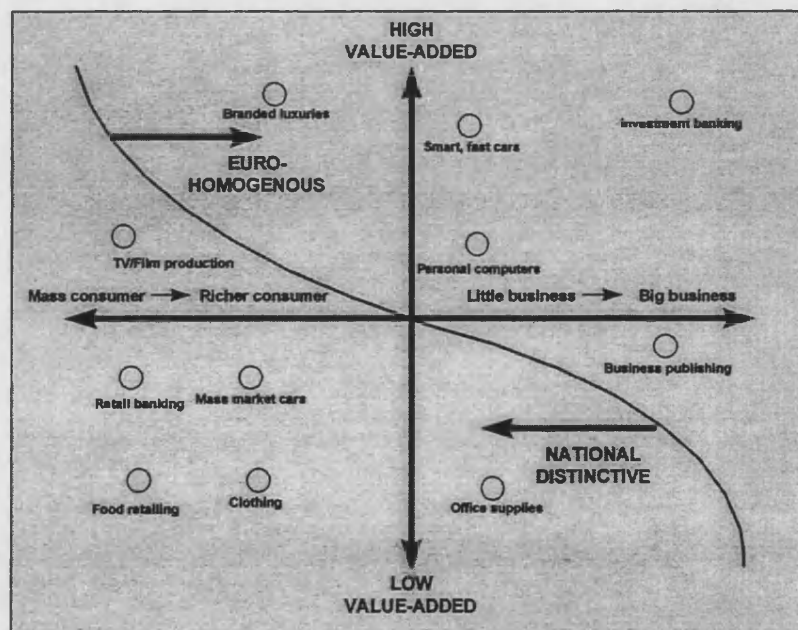
²⁵

D'Arcy, Masius, Benton & Bowles, 1989

the European market and those to localise or differentiate (Calori, R. and Lawrence, P., 1991, Halliburton, C. and Hünerberg, R., 1993; Reichel, J., 1989; Atamer, T., 1993; Hünerberg, R., Heise, G. and Hoffmeister, M., 1995). What differs are the approaches and the terminology used; for instance, Vandermerwe advances the concept of 'consumer clusters', joining up these groupings to create three different sizes of market niche (regional mass-clusters, regional niche-clusters and local niche-markets) (Vandermerwe, S., 1989(b); Vandermerwe, S., 1993), Colchester and Buchan categorise industries according to their 'Euro-homogeneity' or 'national distinctiveness' (Colchester, N. and Buchan, D. 1990), and Atamer develops the model used by Porter and Ohmae amongst others (Porter, M., 1990; Ohmae, K., 1985) to situate industries on a global forces versus local forces graph, leading to the four categories global, transnational, mixed and multidomestic (Atamer, T., 1993). Attempts to apply this thinking to the car industry usually founder against the impossibility of pigeonholing the whole of the industry into any specific category; Colchester and Buchan draw a distinction between 'smart, fast cars', which they consider relatively 'Euro-homogeneous', and 'mass market cars', which are more prone to require modifications to meet consumer needs in different markets (Colchester, N. and Buchan, D. 1990).

Figure 2-8

STRATEGIC PATHS²⁶



This is not to suggest that splitting the industry up is not a valid approach; indeed, the balance of global and local forces will be different for each company, meaning that most attempts to consider the European market from the perspective of a specific industry are, at best, over-general, and also that the ideal approach would probably be to consider each company entirely separately.

*"The firm stands at the heart of the process: the large internal market will be created with the firm or it will not be created at all. The elimination of non-tariff barriers, the strengthening of competition and the free entry to markets will oblige firms to change, to rethink their organisation, to redefine their strategy. They will have to keep pace with events or disappear, accept the risk in order to seize new opportunities for expansion or go under."*²⁷

2-3-3 GENERAL DEVELOPMENTS IN THE DISTRIBUTION OF CARS

The notion of a chain or network of distribution actors is a well established one (Stern, L. and Reve, T., 1980; Bowersox, D. and Morash, E., 1988; Stern, L. and El-Ansary, A., 1982; Andersson, P., 1991; Filser, M., 1992; Womack, J., Jones, D. and Roos, D., 1990; Ruigrok, W. and Van Tulder, R., 1991), and this end of company operations is now considered in the literature in very much the same way as the factory and pre-factory stages, with talk of tiered actors, specialist partners, outsourcing and subcontractors.

As well as this however, the defining feature of the chain in the case of cars needs to be considered, namely the system of selling cars through a system of tied dealerships not (for the most part) belonging to the manufacturer. The underlying theory governing the way cars are distributed and sold is that of markets, hierarchies and transaction costs developed, amongst others, by Coase and Williamson (Coase, 1937; Williamson, O., 1975). On one side of the argument, the nature and extent of the transaction costs involved in the selling of cars, including the unpredictability of the market concerning the number of cars that the manufacturer can expect to sell within a given period (a situation which fits Williamson's definition of 'bounded rationality'), the cost of the product and the financial complexities

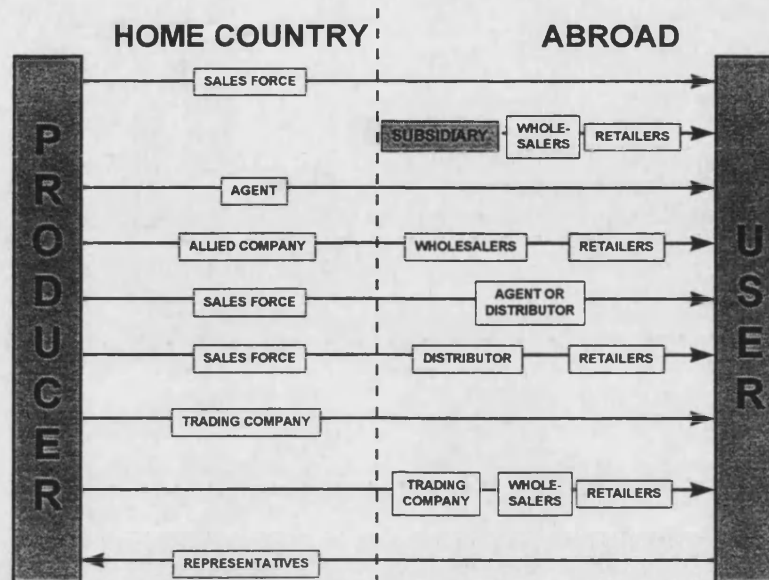
²⁷

Jacquemin, A. and Sapir, A., 1989: p349

that the shifting of stock from producer to distributor and from distributor to buyer involves and the highly specialised knowledge needed regarding the product itself and the tactics employed to sell it, together suggest that the most appropriate, and lowest risk solution for the manufacturers would be to integrate these operations into the company framework (Filser, M., 1992). On the other hand, however, it is important to consider the crucial role played by service back-up in the selling of cars, a factor which dictates the need for a network of facilities as geographically dense as possible, in order for the manufacturer to remain close to the consumer. This meant that, when the manufacturers were in the process of setting up their networks in the 1930s (at a time when the product was far less reliable and the need for local presence consequently greater), a system of tied but essentially autonomous agents, who came to be known as dealerships, was the lowest-cost, and also the only practical option available for manufacturers intending to sell their products in any significant volume. This trade-off that companies have had to make between the desire to have a strong influence over the selling of their product and the need to maintain as geographically dense a representation as possible (Andersson, P., 1992) is one that has existed since the earliest days of automobile production (and indeed in many other industries as well) (Gogel, R. and Larréché, J-C., 1989), but the coincidence of various factors means that a fundamental re-evaluation of the transaction costs involved in selling cars in this way has become a priority for the industry.

So, whilst the options available to a company embarking upon an export strategy would theoretically include appointing an agent or distributor, buying an existing distribution chain, building a new distribution chain, buying a manufacturing company with an established distribution chain, negotiating a long-term contract with a retailer or other distributor, an exclusive arrangement or shareholding in a regional or national distributor (Lynch, R., 1990);

Figure 2-9

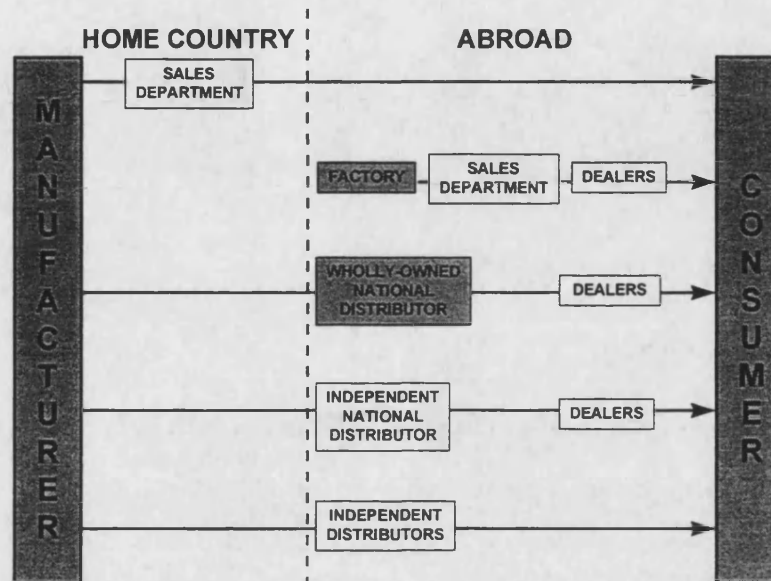
INTERNATIONAL MARKETING CHANNELS²⁸

the reality of the European, and indeed global, car markets has thus far been dominated by the system of manufacturers selling their cars through a tiered network of (wholly-owned or independent) national distributors (for export markets) and franchised dealers (Gogel, R. and Larréché, J-C., 1989). Exceptions, such as the Korean market, where all the outlets are owned by the manufacturers, are rare indeed.

²⁸ Adapted from Stern, L. and El-Ansary, A., 1982: p519, quoting Kahler, R. and Kramer, R., 1979: "International Marketing", 4th Edition, Southwestern Publishing Company, Cincinnati, Ohio: p169

Figure 2-10

INTERNATIONAL MARKETING CHANNELS IN THE EUROPEAN CAR INDUSTRY



The evolution of the industry from its craft roots to its global status of today has come not only as a result of technological advances in the product and in its manufacture (Womack, J., Jones, D. and Roos, D., 1990), but particularly as a direct consequence of the industry having developed this secure and responsive means of bringing products and consumers together. The post-factory distribution chain as a whole, and the dealer networks in particular, therefore play a very considerable role in manufacturer strategy, as the following list illustrates;

- the franchise system provides stable market representation and dedicated sales capability across the manufacturer's range;
- the security of distribution and 'sales power' gives stability from which to plan new models;
- there are few organisational barriers to new market entry;
- dealers can help to sustain the profitability throughout the lifetime of a product;
- a stable dealer network allows manufacturers to widen product choice and to experiment with niche models;
- the dealer network provides a flow of future demand information

- from which production can be planned;*
- *the dealers work with their manufacturers to resolve mismatches between supply and demand by absorbing stock or conducting promotional campaigns".²⁹*

For instance, if one examines the history of distribution structures in the market, it is apparent that national distribution companies, both independent and manufacturer-owned, have been an accepted feature of the European car market for almost as long as the manufacturers themselves, and many of them can be traced right back to the formative years of the industry around the turn of the century (Bricnet, F. and Mangolte, P-A., 1990; Womack, J., Jones, D. and Roos, D., 1990; Mayes, D., 1990). When the car companies first started to organise formal export programmes, as opposed to piecemeal shipments of individual cars to interested parties, national distribution companies became the flag wavers for their manufacturers abroad, the focal points for overcoming the myriad of linguistic, social and cultural barriers and organising the sale of their cars in the foreign country (Stein, R., 1961; Lamming, R., 1993). Many national distributors started out as independent traders, importing cars for individual buyers before the manufacturer became interested and formalised operations, sometimes even going as far as taking over control of the company. The next step was the setting up of a network of dealers tied to the national distributor to cover the sales territory starting from the urban centres, and several national distributors assumed ownership of certain strategic dealerships themselves. Some of them also further developed their activities by operating assembly facilities for their manufacturers, screwing together kits of cars (Womack, J., Jones, D. and Roos, D., 1990).

As the European car market expanded, the roles of national distributors became cemented. Whilst manufacturer headquarters retained the task of defining and developing overall policy with regard to corporate image, product ranges, distribution and marketing, the national distributors were generally accorded full responsibility for its implementation and monitoring on the ground. This entailed full control over the dealer network and those who worked within it, the handling of orders and stocks of cars and parts within their market, as well as the formulation of marketing strategies and promotional campaigns within a framework laid down by manufacturer headquarters, roles the national distributors have maintained unchallenged until relatively recently (Bricnet, F. and Mangolte, P-A., 1990; Mayes, D., 1990). Whilst the various European markets developed at different rates, this was nevertheless the general pattern adopted, and copied, by car companies across the continent.

²⁹Adapted from International Car Distribution Programme, 1994(a)

Just as with the appointment of an independent national distributor at the start of an export programme, the manufacturer will select and grant a franchise to a dealer principally in return for the achievement of an expected level of sales and service performance by the latter. Viewed from the opposite perspective, the dealer entrepreneur takes on a franchise, agreeing to invest in a dealership premises and to conform to the manufacturer's stipulations in return for the chance to make a reasonable profit on its operation.

As we have seen, the globalisation of the industry's operations and the intensification of competition in the marketplace have brought both of these factors, the place of the distribution chain within the whole 'business system'³⁰ and the 'economic bargains' struck between national distributors, dealers and other actors, sharply into focus. For the manufacturers, the need to follow the 'lean production' revolution in the pre-factory and assembly stages with dramatic cost reductions in the post-factory area has become urgent (Womack, J., Jones, D. and Roos, D., 1990; Stern, L., Sturdivant, F. and Getz, G., 1993; Ruigrok, W. and Van Tulder, R., 1991).³¹ For the national distributors and the dealers, the issues are how to respond to and how to assimilate the changes that may be introduced by the manufacturers in the future and also how to maintain or even to restore a degree of profitability in their activities. In Europe, the situation has been exacerbated by the severe market downturn of the early 1990s, a recession from which many manufacturers and markets have yet to fully recover (if, indeed, they will ever do so).

A direct consequence of the difficult period being endured by the European industry has been the interest and support shown by all sides of the industry in research projects such as the International Car Distribution Programme. One of the early pieces of work conducted by the Programme sought to dispel some of the many myths surrounding the actual costs involved in the distribution chain.³²

³⁰ See Figure 2-1

³¹ See Section 3-3

³² International Car Distribution Programme, 1994(a)

*Figure 2-11***THE COST OF MARKETING CARS³³**

	% of net consumer price (pre-tax)
Physical logistics	1
Advertising	1-4
Promotions	ca. 2
Administration	ca. 2
Interest	1.00
SUBTOTAL	7-11
Dealer Gross	3-10
TOTAL	10-21

The final figure reached, showing that between 10% and 21% of the net consumer price of the car is accounted for by the workings of the distribution chain, helps to illustrate the importance for the manufacturers of the task of optimising the chain. These figures are lower than those usually published as they are apparently based on the true selling price after discount, and are adjusted to exclude payments made by manufacturers that are passed directly or indirectly to the customer in the form of a price reduction (bonuses, credit subsidies, etc.); other sources, for instance, have reached figures of up to 35%.³⁴ Nevertheless, this range of figures illustrates the significance of the stakes at play for the industry, and also serves to underline the relevance of researching the distribution area, both for the whole ICDP project, and for this individual piece of work.

2-3-4 PREDICTIONS FOR THE FUTURE EVOLUTION OF THE EUROPEAN CAR DISTRIBUTION SYSTEM

Recently, then, critical attention has indeed shifted to the post-factory area of the industry, reflecting its increased status in the eyes of the industry and of governments and regulators.

³³ International Car Distribution Programme, 1994(a)

³⁴ Derrick, M. in The Guardian (supplement: "New Car Age"), 16/01/1992

For instance, a significant amount of speculation has taken place into the effects of the Single European Market on the distribution and marketing of cars.³⁵ The central piece of research which defined the non-tariff barriers, and which also made specific predictions for the benefits that would accrue following their removal was the 'Cost of Non-Europe' report, produced for the Commission by Paolo Cecchini. The car industry section of this report was prepared by industry consultants Ludvigsen Associates (Commission of the European Communities/Ludvigsen Associates, 1988) and has been widely referred to both by independent commentators (ACEA, 1991; National Consumer Council, 1990; Assemblée Nationale, 1992) and by the Commission itself (Commission of the European Communities, 1992). Some of the possible outcomes put forward have included significant savings to be made from the abolition of the national importer layer of the distribution pyramid.

*"Car marketing patterns in Community countries shift under the influence of the new tax regimes and the phasing out of internal market limitations on third-country BU (Built-Up) imports. Vehicle makers and distributors exert central control of their sales and marketing for all of the Community through a single headquarters, setting up regions and zones throughout the EC in place of the present sales company system."*³⁶

Further suggestions included the coordination and standardisation of marketing at a pan-European level (Quelch, J., Buzzell, R. and Salama, E., 1990; Colchester, N. and Buchan, D., 1990), quantified at 2.3 billion ECU by Ludvigsen Associates (Commission of the European Communities/Ludvigsen Associates, 1988), the emergence of new structures of the distribution area such as large scale multi-marque dealers and the normalisation of *mandataire* activity (Bellenger, L., 1986(a); Womack, J., Jones, D. and Roos, D., 1990), elements of a stronger partnership approach on the part of the manufacturers (Bellenger, L., 1986(a); Assemblée Nationale, 1992) and even the integration of selling operations into the car manufacturers themselves, or at least a much stricter control over the downstream chain (Ruigrok, W. and Van Tulder, R., 1991; Assemblée Nationale, 1992).

"An immediate cost reduction in sales and marketing will be a consequence of the increased interpenetration of the market by car makes and models in EC92. The model ranges offered by makers throughout the EC will differ country-by-country less than they do in

³⁵ See section 2-5 for a more detailed account of how the car industry has been affected by the Single Market Programme

³⁶ Commission of the European Communities/Ludvigsen Associates, 1988: p63

*EC85. This will allow increased pan-European advertising, promotion and launching of automobiles, which in turn will allow the fixed cost element of preparing the relevant promotional material to be reduced. ... It is estimated that a saving of 5% in the cost of advertising could be obtained by the centralisation of advertising/marketing budgets and the greater use of common material. This is expected to generate savings in the region of 42,476,000 ECU."*³⁷

Others have once again concentrated on the tension felt by manufacturers between this need to take advantage of the potential economies of scale and efficiency benefits conferred by the existence of a large internal market whilst at the same time trying to remain as responsive as possible to the individual tastes and needs of different groups of consumers throughout the Union (Colchester, N. and Buchan, D., 1990; Quelch, J., Buzzell, R. and Salama, E., 1990).

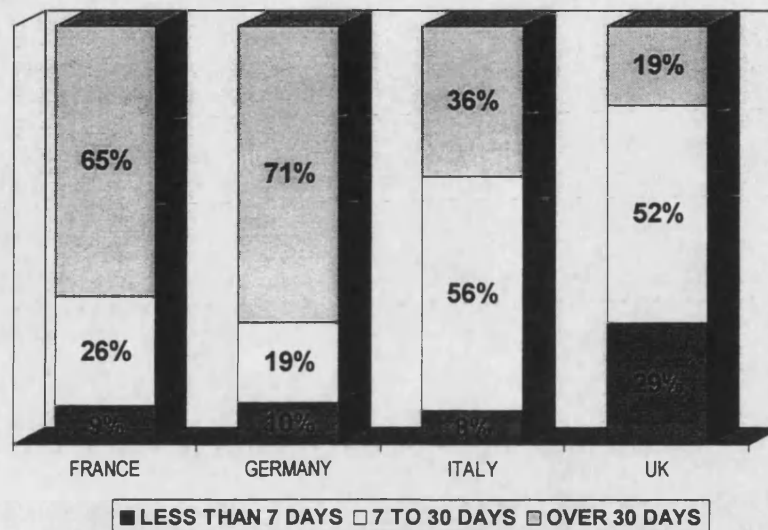
Some have taken a yet more focused approach, and have considered distribution and marketing separately. Possibly because of its highly specialised nature, few works on distribution in Europe have much relevance to the way the car industry operates, and many make just a passing reference to the Block Exemption governing the franchised dealer system.³⁸ Of those that can be applied, Gogel and Larréché consider whether the European market will result in a shift in the balance to be struck between product strength (in the guise of the quality of the outlet) and geographical coverage (the number of dealerships that the manufacturer owns or franchises in any one market) (Gogel, R. and Larréché, J-C., 1989), which, as shall be illustrated throughout this research, is a particularly pertinent question given the lack of profitability and continued rationalisation of dealer networks across Europe. Calori and Lawrence predict the further re-segmentation of the car market into new horizontal niches, reckoning that this will lead to the emergence of distribution structures according to 'themes', such as leisure vehicles or sports cars (Calori, R. and Lawrence, P., 1991), and Mercer suggests a reorganisation of the dealer's activities, separating out or 'unbundling' sales, after-sales, used cars, etc., some of which could be conducted elsewhere (Mercer, G., 1994). Andersson views the whole distribution channel as a network of exchange relationships between the various actors, borrowing on the notions of the interdependency of channel actors (Stern, L. and El-Ansary, A., 1982), and of the whole network as a series of 'nodes' connected by 'marketing flows' (Bowersox, D. and Morash, E., 1988). He then goes on to consider the level of 'connectedness' between the actors in terms of either 'loose' or 'tight coupling' (Andersson, P., 1992). Gadde et al

³⁷ Commission of the European Communities/Ludvigsen Associates, 1988: p150

³⁸ The Block Exemption is covered in more detail in section 2-5-3

take a similar perspective, but considering instead the variables of stability and change (Gadde, L-E. et al, 1988). Filser combines the historical background to car distribution, namely the manufacturers having put the system in place by delegating distribution activities to intermediaries who could carry out them out at a lower cost whilst at the same time being able to regulate the flow of products into this distribution system and thereby to dominate its actors (despite the recent growth of dealer groups) with the political economy 'environment - strategy - structure' paradigm (Porter, M., 1990; Miller, D., 1988; Stern, L. and R  ve, T., 1980) to create an internal and an external political economy model. Numerous authors, including Goeudevert, Lawrence et al, Brown et al and Chao and Rajendran (Goeudevert, D., 1990; Lawrence, C., Marr, N. and Prendergast, G., 1992; Brown, J., Light, D. and Gazda, G., 1987; Chao, P. and Rajendran, K., 1993) have gone on from this to consider the role that country-of-origin criteria play in the consumers' purchasing decision. Together, they suggest that Levitt was mistaken when he claimed that national preferences had ceased to be an important factor in company strategy (Levitt, T., 1991). One only has to consider the psychology of car ownership in different Member States to appreciate that these factors are very real. In Southern Europe, for example, the car is an ostentatious display of social standing as well as a means of displaying masculinity, and as such local driving styles are completely in harmony with a value system which encourages the outward expression of sentiments and sensations. This is in sharp contrast with the Northern attitude to be found in countries such as Denmark, Sweden and the UK, where the car is viewed more as a functional piece of equipment. There are signs that these attitudes are converging, partly as a result of this new 'Euro-awareness', but also because of the increased congestion on the roads and Europe-wide clamp-down on such anti-social behaviour as drunk driving and speeding (Scardigli, V., 1989).

Figure 2-12

CUSTOMER PROPENSITY TO WAIT FOR VEHICLE DELIVERY³⁹

One can hopefully conclude from this study of the literature that the gradual emergence of the Single European Market in cars is not making the nature of the market any less complex, in fact, it is constantly becoming more so (Calori, R. and Lawrence, P., 1991). The emergence of new Europe-wide consumer clusters, each with specific taste preferences and needs, implies for some that it will prove impossible for car manufacturers to harmonise their marketing totally (Mayes, D., 1991). Different linguistic, cultural and wealth groupings will, we are told, require individually targeted campaigns; at the same time as these new splits emerging, the product itself is breaking free of its traditional model range segmentation according to size and spawning a whole new selection of niche categories according to vehicle use (Calori, R. and Lawrence, P., 1991).

Whilst these represent just some of the ideas that have been put forward, they are the most generally accepted. However, because of the interdependencies present in the post-factory network (Andersson, P., 1992), these potential marketing developments cannot be considered in isolation. Central to any company strategy towards the Single European Market is the trade-off between product strength (which is covered in the above argument), and geographical coverage (which as we have seen for cars means the relationship between the manufacturer and their dealer network) (Gogel, R. and Larréché, J-C., 1989). It has

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ICDP European New Car Supply and Stocking System Presentation

already been suggested that manufacturers will seek to implement pan-European distribution structures and strategies, thereby ensuring the most efficient possible coverage of the European market (Commission of the European Communities/Ludvigsen Associates, 1988), and if this is done in combination with the differentiated marketing strategies mentioned above, it would again suggest that the emerging strategy for the new Europe involves separating out different strands of company post-factory activity, a concept often referred to as 'unbundling' (Bowersox, D. and Morash, E., 1988; Mercer, G., 1994), and relating global/local, or harmonisation/differentiation considerations to each one (Calori, R. and Lawrence, P., 1991). The central question in this respect is therefore whether the links that join the manufacturer to the distributors and to the dealers are going to strengthen or weaken as a response to the Single Market. Some, for the reasons already cited regarding image and the nature of the competition in a mature market, consider that the manufacturers will seek to strengthen these ties (particularly those 'globally local' companies which seek to have a wholly-controlled presence in each of the triad regions), and to employ only exclusive dealers, possibly even owned (or at the very least strongly supported) by the company itself (Ruigrok, W. and Van Tulder, R., 1991; Assemblée Nationale, 1992). Others, as already explained, see the gain in power on the part of the dealerships themselves as going hand in hand with the growing importance of the buyer in the whole process, and therefore as an inevitable phenomenon which should be responded to by the development of more balanced manufacturer/dealer relationships based on the principles of long-term partnerships already employed elsewhere in the industry (Bellenger, L., 1986(a); Assemblée Nationale, 1992). Finally, some conclude that both of the above will have implications for the national distributor level, the key interface, whether it be a subsidiary of the manufacturer or independent, between manufacturer and dealer, and take on the notion from the 'Cost of Non-Europe' project that this link in the chain may become superfluous, or at the very least, may need to be rethought (Mayes, D., 1991; Halliburton, C. and Hünerberg, R., 1993; Mattsson, L-G. et al, 1989; Calori, R. and Lawrence, P., 1991). As shall be seen in Chapter 3, all these issues figure strongly in the emerging lean distribution paradigm.

Nevertheless, this does not tally exactly with what the Commission was led to believe would be the outcome of the Single Market Programme (Commission of the European Communities/Ludvigsen Associates, 1988), but would provide evidence for the view that the legislation governing the Single European Market is only partly responsible for the major changes underway in car manufacturer distribution and marketing strategy (Calori, R. and Lawrence, P., 1991).

"In reality, the single market will have a built-in paradox: becoming

more culture-free and homogeneous on the one hand, yet still complex and with diverse local markets and highly fragmented specialised niches. What executives expect to see is less differences between, than within, national boundaries in many product/markets. ... For them, the challenge will be to produce and deliver either mass-standardised goods and services or core standard offerings with customised features and services."⁴⁰

Far from simplifying matters, it would seem that the Single Market Programme has actually complicated the dilemma facing marketers by multiplying the number of cases where a trade-off has to be made between the desire to adopt a standardised approach for the sake of consistency and economies of scale, and the need to retain differentiation of strategy in an attempt to appeal to the many targeted groups of consumers (Calori, R. and Lawrence, P., 1991; Makridakis, S., 1991; Mourier, P., and Burgaud, D., 1989; Reichel, J., 1989; Quelch, J., Buzzell, R. and Salama, E., 1990; Vandermerwe, S., 1989(b)).

2-3-5 RECENT TRENDS IN EUROPEAN CAR DISTRIBUTION STRUCTURES

Leaving aside the theoretical basis of the selling and marketing of cars for a moment, it is possible to construct, using some of the sizeable volume of available secondary data, an overview of some of the observable marketplace characteristics and recent developments in the post-factory sector.

2-3-5-1 DEALER AND NATIONAL DISTRIBUTOR DIVERSITY

The overriding feature of the dealer sector in Europe, as established in the literature, is its diversity. The table below illustrates that, whilst 3 of the 'Big 4' European markets sell roughly the same volume of cars (as did Germany prior to reunification), they differ markedly in a number of other measures.

⁴⁰ Vandermerwe, S., 1989,(a): p52

Figure 2-13

MARKET AND FRANCHISED DEALER STATISTICS FOR THE EUROPEAN 'BIG 4' MARKETS, 1993⁴¹

	France	Germany	Italy	UK
Sales (private cars):				
1993 calendar year	1,721,222	3,194,204	1,890,073	1,778,425
% total Europe	15.1%	28%	16.5%	15.6%
Japanese makes market share:				
1993 calendar year	78,589	479,111	87,118	225,423
% national market	4.6%	15%	4.6%	12.7%
Dealer structures 1992:				
Direct	5355	17,105	5293	6052
Indirect	18,896	8022	15,928	1462
Total	24,251	25,127	21,221	7514
Light vehicle sales per direct	434	249	468	287
Light vehicle sales per outlet	99	177	172	239
Manufacturer/importer owned	176	175	57	72
Dealers owned by top 10 groups	132	n/a	n/a	663
% total direct dealers	2.5%			11%
Cars in use per dealer	982	1413	1192	2921
Population per dealer	2335	3149	2721	7651

Differences in the penetration of Japanese makes is, as shall be discussed in section 2-5-2, largely due to the legacy of quantitative restrictions against their importation in that particular market (prior to the Europe-wide agreement) (Gandillot, T., 1992; De Banville, E. de, and Chanaron, J-J., 1991; National Consumer Council, 1990), but many of the other structural variations can be attributed to the geocultural character of the market in question (Colchester, N. and Buchan, D., 1990). For instance, the high numbers of indirect dealers in the French market, as well as the low number of prospective customers available to each dealer, reflect the dispersed nature of much of the population, with indirect dealers having grown up as the only practical means of assuring complete territorial coverage.⁴² The UK

⁴¹ International Car Distribution Programme, 1995(a)

⁴² Direct (or primary, main or first-tier) dealers are defined as those which have a direct franchise contract with the manufacturer or national distributor, and may be sub-divided into branch (manufacturer- or importer-owned) or independent and full-facility, sales only and service only. Indirect (or second-tier or sub-) dealers are those who hold a franchise contract through a direct dealer only, and who are usually supplied by them. Again, these can be sub-divided into full-facility, sales only and service only. Just to complicate matters further, some service-only dealers may also

market, by contrast, has by far the fewest number of dealers and the concentration of cars and consumers per outlet; this is not only the result of its more compact size and population spread, but also due to its position as the most mature and developed of the European markets in terms of distribution structures.

Some of these themes will be discussed in more detail later in this chapter, and it will also become clear that developments in the UK market set the pace for the rest of the region by a considerable margin. In the meantime, this European diversity can further be shown by looking at overall dealer numbers across the whole of Europe, for these figures also demonstrate great variation.

Figure 2-14

FRANCHISED CAR DEALERS IN EUROPE, 1993⁴³

Country	Total direct dealers	Total indirect dealers	Total all dealers
<i>Austria</i>	2212	975	3187
<i>Belgium</i>	3,294	2484	5778
<i>Denmark</i>	1389	180	1569
<i>Finland</i>	1013	1108	2121
<i>France</i>	5355	18896	24251
<i>Germany</i>	17105	8022	25127
<i>Greece</i>	1303	666	1969
<i>Ireland</i>	765	24	789
<i>Italy</i>	5293	15928	21221
<i>Netherlands</i>	3318	554	3872
<i>Norway</i>	1145	173	1318
<i>Portugal</i>	1007	645	1652
<i>Spain</i>	2994	7897	10891
<i>Sweden</i>	1673	1833	3506
<i>Switzerland</i>	2354	4331	6685
<i>UK</i>	6052	1462	7514
<i>Europe</i>	56,272	65,178	121,450

order new or used cars for their customers. Definitions from Harbour Wade, 1993; Tongue, A. in International Car Distribution Programme, 1996(q)

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International Car Distribution Programme, 1994(a). The dealer numbers refer to all franchised dealer points for the 32 major makes, offering sales or service or both. Allowing for the multifranchising of dealer sites, the total number of dealerships in Europe is probably around 104,000.

The single biggest issue currently facing dealers, both in the UK and in the rest of Europe, is their lack of profitability.⁴⁴ The number of dealers in Europe has been falling constantly over the last few years as dealers have gone bankrupt or manufacturers have rationalised their networks to save money; again however, the rates of decline have varied between countries. In the UK for instance, the number of outlets has decreased by 13.3% since 1985⁴⁵, and in France, the number of dealers has continued to decline despite the arrival of new players in the marketplace (Ssangyong, Tata, Kia, Suzuki, Subaru, Hyundai and Daihatsu have all entered the French market since 1992). This process of rationalisation still has a very long way to go in many of the European markets, a fact demonstrated by the gap that already exists between the pioneering UK market (where the rationalisation is furthest advanced, but still far from complete) and the others. Overall, around 80% of Europe's dealers and about 75% of actual franchise points (some individual dealers may have a separate service facility located elsewhere within his territory, etc.) are still exclusive, independent 'owner-driver' operations, a figure which is very significant when viewed in the light of the evolution of structures and ownership styles in the UK, which has seen the rapid growth of dealer groups, many of them publicly-owned, operating many sites and many different franchises. For instance, at the end of 1993, the ten biggest groups alone controlled 632 dealerships in the UK market (up from 531 at the end of 1992).

Figure 2-15

THE EVOLUTION OF FRENCH DEALER STRUCTURES⁴⁶

	1988	1993	Variation
Manufacturer-owned outlets	176	172	-2.3%
Dealers	5220	5185	-0.6%
Sub-dealers	22200	18900	-17.5%
Total	27596	24257	-12.1%

A similar degree of diversity is apparent at the higher level in the distribution chain amongst the national distributor operations. For instance, Figure 2-16 below illustrates the different numbers of wholly-owned and independent distribution arrangements across a selection of European markets. The number of manufacturer-owned operations has increased between 1993 and 1996, but, as the next figure shows, the percentage of

⁴⁴ Financial Times, 17/08/1995

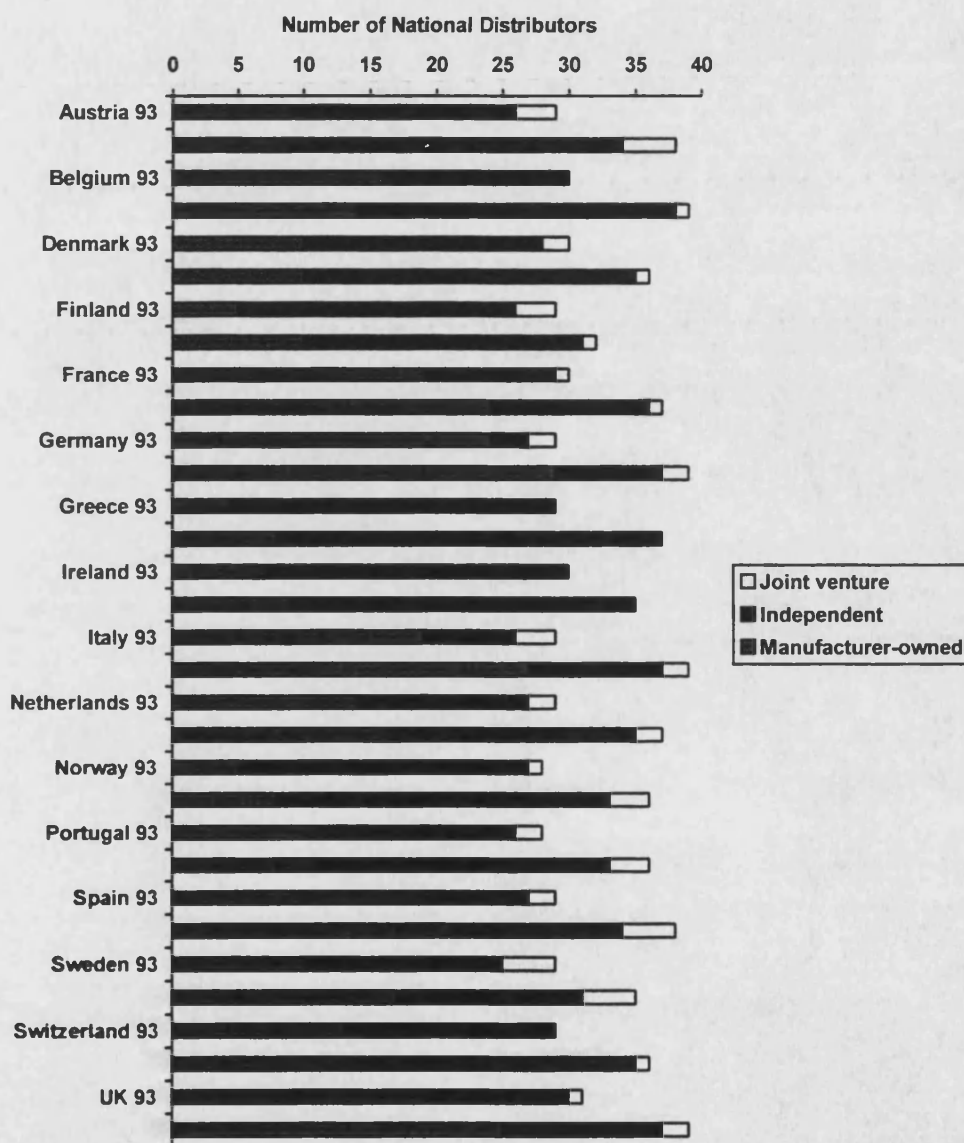
⁴⁵ International Car Distribution Programme, 1995(a)

⁴⁶ International Car Distribution Programme, 1995(a), from Journal de L'Automobile - Auto Infos

manufacturer-owned operations as a proportion of the whole has not; this being due to new arrivals in the European marketplace, notably the Korean makes, starting out with independent distributors.⁴⁷

Figure 2-16

NATIONAL DISTRIBUTOR STATUS BY MARKET, 1993 AND 1996⁴⁸

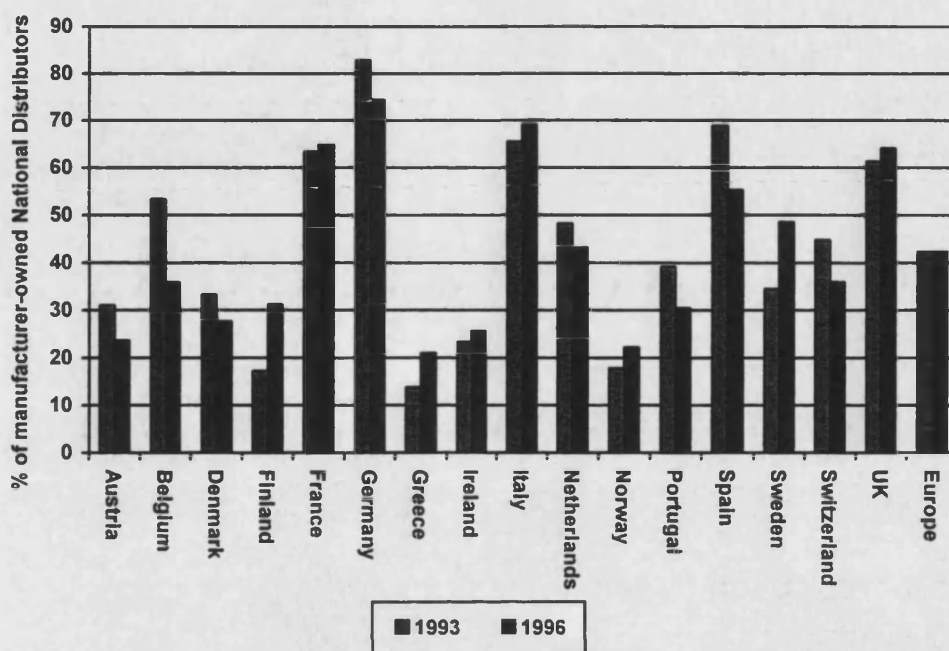


⁴⁷ A further reason for this difference is that figures for more makes were collected for the 1996 survey than for the 1993 survey. The latter survey allowed makes such as Ferrari and Maserati to be included; such specialist makes tending to have more independent national distributors than their volume counterparts

⁴⁸ Harbour Wade, 1993; *International Car Distribution Programme*, 1996(n), own calculations

Figure 2-17

MANUFACTURER-OWNED NATIONAL DISTRIBUTORS BY MARKET⁴⁹



Nevertheless, the German market, Europe's largest, has the highest proportion of manufacturer-owned national distributors, followed by several other of the more prosperous European markets such as Belgium, France, Italy, Spain and the UK. The difference between the largest proportion, 82.76% (Germany - 1993), and the smallest, 13.79% (Greece - 1993) illustrates the diverse stages of development of the European market.

Figure 2-18 below splits these figures according to the type of manufacturer, and reveals that the volume manufacturers in general have a greater proportion of manufacturer-owned national distributors than the specialist and Asian makes.⁵⁰ Conversely, the Asian manufacturers, many of whom inevitably arrived in the European market without a great deal of experience of local conditions, demonstrate a much greater share of independent and also of joint venture operations, relying on bought in local expertise to gain them a firm foothold in the marketplace. Many of the more experienced Asian manufacturers seem to be approaching or have reached the point where they are able to manage their

⁴⁹ Harbour Wade, 1993; *International Car Distribution Programme*, 1996(n), own calculations

⁵⁰ For a list of which manufacturers are categorised into which type, see Appendix XV

operations themselves, with Honda and Nissan leading the way, as the following figure shows. Compared to comparable figures for 1993,⁵¹ the volume makes have increased the proportion of wholly-owned operations from 56.3% to 62.2%. The specialist makes, however, now display a greater proportion of independent distributors; as already mentioned, this can be accounted for by the new arrivals in the marketplace and by the greater number of small, specialist makes who participated in the 1996 survey.

Figure 2-18

NATIONAL DISTRIBUTOR STATUS BY MANUFACTURER TYPE, 1996⁵²

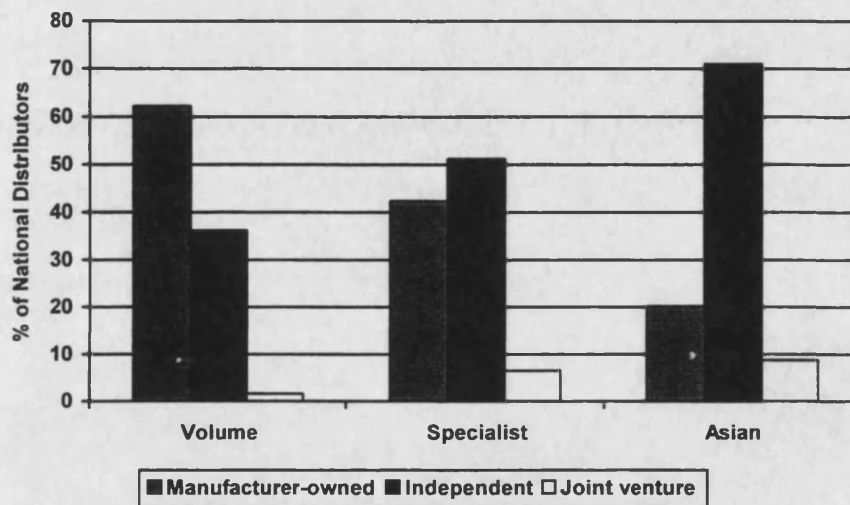


Figure 2-19 below splits these figures according to manufacturer. Here it is apparent that Ford and General Motors are alone in owning all their national distributors, a situation which has existed for a number of years, and are followed by Volvo and the French manufacturers. It is interesting to note that, of this 'top five', GM and Ford are both American in origin (but have been in Europe for many years) and Volvo is from Sweden, a market until recently not part of the European Union. These three are also the only manufacturers to have thus far operated 'European headquarters' facilities (separate from corporate headquarters or the 'home base') to oversee the whole European market and to gain a foothold within the Union. Apart from some of the Japanese makes which are starting to follow this lead, all the other manufacturers still treat Europe very much in terms of 'home' and 'export' markets, and this is reflected in the diverse nature of their national

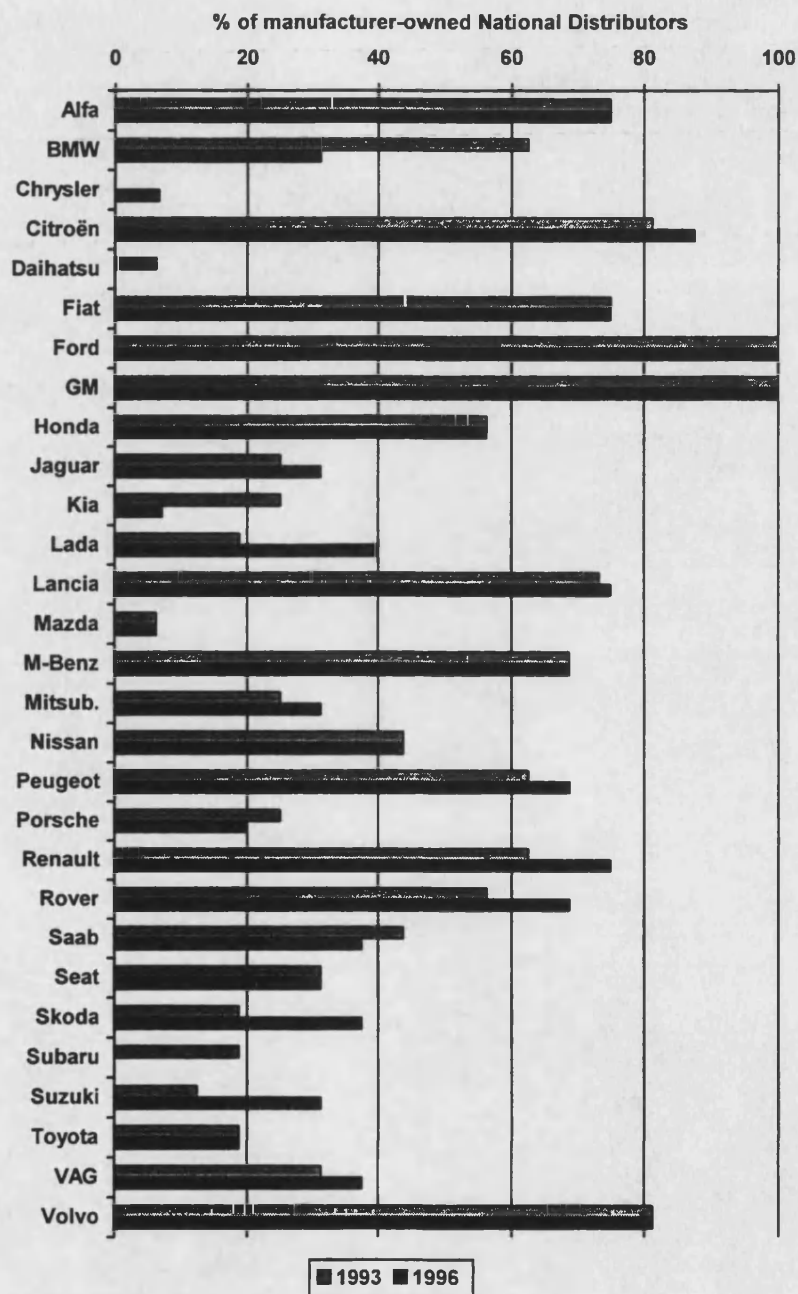
⁵¹ Harbour Wade, 1993

⁵² International Car Distribution Programme, 1995(n), own calculations

distributor structures.

Figure 2-19

**% OF MANUFACTURER-OWNED NATIONAL DISTRIBUTORS,
1993 AND 1996⁵³**



⁵³

Harbour Wade, 1993; *International Car Distribution Programme*, 1996(n), own calculations. Only manufacturers where figures for both years are available have been included, so as to avoid some makes erroneously appearing to have had no wholly-owned national distributors in 1993

Overall, then, it is clear that the current strategies adopted by the car manufacturers for the national distributor and dealer levels of the distribution chain show the multiplicity of different national arrangements that have evolved since the dawn of motoring. There is little indication that the innovations that will be introduced in these strategies to meet the challenges of the European car market in years to come will be any less diverse, thus contributing still further to rich tapestry of the car industry as it moves into the 21st Century (Banville, E. de and Chanaron, J-J., 1991; Mayes, D., 1991).

2-3-5-2 DEALER SECTOR TRENDS

It is possible to relate many of the evolutions observed above to a specific set of trends and influences which are currently shaping the sector. The following list summarises some of the basic trends, all of them observable in the secondary literature on the industry, that have become apparent over the last 10 years (Womack, J., Jones, D. and Roos, D., 1990; Europe 2000, 1991; Gadde, L-E. et al, 1988; Harbour Wade, 1993). Almost all of them originated in the UK market, and some have yet to spread to continental Europe, although it is widely agreed that all of them will inevitably do so in the years to come.

- *"Dealer numbers have reduced, particularly in the specialist franchises;*
- *Multiple ownership of dealerships and multiple franchised sites have increased in number;*
- *The level of investment needed to establish a dealership has grown;*
- *Dealer gross margins have been cut, and replaced with bonus schemes for meeting performance criteria;*
- *Customer satisfaction levels have risen;*
- *New systems of stock management, removing stock from the dealers, have started to be introduced (lean distribution);*
- *There has been an increase in the volume of cars bought by major customers (such as rental companies). This has forced concessionary terms out of the manufacturers in the form of price rebates or discounts, which in turn has disrupted franchised dealers' activities;*
- *The volume of new car sales to private buyers has fallen;*

- *There has been a growth in independent multi-make leasing companies;*
- *Manufacturer marketing campaigns have increasingly started to push finance or leasing packages, or used car schemes;*
- *Dealer service business has been eroded by competition from non-franchised 'fast-fit' chains, although manufacturers have responded to this with schemes for their own franchises;*
- *There has been a growing manufacturer interest in the financial health of dealers.*⁵⁴

Four of these particular aspects are now considered in a little more detail:

- Dealer groups and multifranchising
- Branch dealers and direct sales
- Rethinking territorial coverage
- Alternative retailing options

Dealer groups and multifranchising

Two major developments have characterised the dealer sector in the UK over the last few years, developments which now, thanks to the liberalisation measures of the new Block Exemption⁵⁵ as well as the environmental pressures facing dealers, look set to spread rapidly across the rest of Europe. The first, group ownership of dealers, is hardly a new phenomenon, having been a feature of the UK market since the 1930s, but has seen a rapid expansion over the last decade. The second is multifranchising, a departure from the traditional exclusive mode which has seen one dealer site starting to sell 2, 3 or even 7 or 8 different brands. Again, multifranchising has been pioneered in the UK, but looks set to be taken up by dealers across Europe (International Car Distribution Programme, 1995(a); Europe 2000, 1991).

In the UK market, dealer group numbers and sizes have grown rapidly over the last few years, and never more so than during the market downturn of the early 1990s, when they were able to buy up ailing individual dealerships relatively easily. The table below shows the top 10 groups in the market in 1994 according to their new car and light commercial vehicle sales.

⁵⁴ Adapted from International Car Distribution Programme, 1994(a)

⁵⁵ See section 2-5-3

Figure 2-20

UK TOP 10 CAR DEALER GROUPS BY SALES, 1994⁵⁶

Group	New car sales	No. of franchises	No. of outlets
<i>Lex Retail</i>	63,000	28	122
<i>Hartwell</i>	30,003	14	59
<i>Evans Halshaw</i>	20,607	22	58
<i>Robins and Day</i>	17,131	1*	26
<i>Camden Motors</i>	16,731	7	7
<i>Henlys</i>	16,601	15	33
<i>Perry Group</i>	16,031	12	22
<i>AFG</i>	15,001	11	74
<i>Arnold Clark</i>	14,161	16	33
<i>Greenhous Group</i>	13,254	2	5
* Wholly-owned subsidiary of Peugeot UK			
NB. Some potentially high-selling groups have not made their sales figures available, so this ranking is for guidance only			

This ranking of UK groups according to their sales is given in order to make possible a comparison with the situation in France.⁵⁷ However, this measure is possibly not the most appropriate means of depicting the development of the UK sector, as some groups may have a significant proportion of their sales accounted for by fleet sales, or instead have a limited number of localised sites, but big sales figures due to their high rate of local penetration. A more usual measure is that of group turnover, the 'Top 10' according to which are listed below.

⁵⁶ Lloyds Bowmaker AM100, Automotive Management, 1994. Situation at June 1994.

⁵⁷ See Figure 2-22

Figure 2-21

UK TOP 10 CAR DEALER GROUPS BY TURNOVER, 1994⁵⁸

Group	Turnover £million	No. of franchises	No. of outlets	New car sales
<i>Lex Retail</i>	1300	28	122	63,000
<i>Inchcape Motors Retail</i>	975 est.	18	72	n/a
<i>Hartwell</i>	774	14	59	30,003
<i>Cowie Group</i>	518	11	40	n/a
<i>Appleyard Group</i>	490 est.	24	79	n/a
<i>Sanderson Bramall Group</i>	420 est.	16	35	n/a
<i>Evans Halshaw</i>	484.7	22	58	20,607
<i>Lookers</i>	363.3	15	49	n/a
<i>Bristol Street Motors</i>	360 est.	10	26	13,000*
<i>Henlys</i>	345	15	33	16,601
* 1993 figure				

These figures are a long way ahead of the rest of the European market, where groups (in some cases UK groups moving to internationalise their operations) are only now starting to develop (*International Car Distribution Programme*, 1995(a); *Europe 2000*, 1991). France is the second largest market in Europe in terms of group ownership, but the lack of accurate financial data means that it is not possible to construct a turnover comparison here. Instead, a comparison of sales figures with the UK situation can be made, as the following table illustrates.

58

Lloyds Bowmaker AM100, *Automotive Management*, 1994. Situation at June 1994.

Figure 2-22

FRENCH TOP 10 DEALER GROUPS BY SALES, 1994⁵⁹

Group	Type	New car sales 1994	No. of franchises	No. of outlets
<i>PGA (Guenant)</i>	Multifranchise	22,000	8	36*
<i>Cica</i>	Multifranchise	17,000	13	31
<i>Gueudet</i>	Multifranchise	13,000	3	14
<i>Marani</i>	Multifranchise	11,000	5	12
<i>Schumacher</i>	Monofranchise	11,000	Renault	8
<i>Zodo</i>	Multifranchise	10,000	2	12
<i>Bernard</i>	Multifranchise	10,000	2	11
<i>Lame</i>	Multifranchise	10,000	4	18
<i>Luchard</i>	Monofranchise	9,000	Peugeot	6
<i>Sofco</i>	Multifranchise	8,000	19	23
* 27% held by Lex				

The advantages and disadvantages of the group operation of dealerships have been widely debated in much of the work carried out by the ICDP (International Car Distribution Programme, 1994(b) and (d); 1995 (h) and (m)), but for the purposes of this research it is sufficient to acknowledge that ownership of dealerships is slowly migrating from individuals to groups in many areas of the European market.

The second significant trend to emerge in the UK market over the course of the last few years has been multifranchising, the situation whereby one dealer site may sell 2, 3, 4 or even 7 or 8 different makes. Again, the UK has led the rest of Europe, but multifranchising is set to expand rapidly on the continent both as a result of the new Block Exemption, which now makes it easier for dealers to take on another franchise of a competing make,⁶⁰ and also because of the advent of lean distribution systems, which remove much of the dealer's traditional stocks of cars,⁶¹ thus freeing up room at his site which can be used to house another showroom (Europe 2000, 1991; Bellenger, L., 1986(a)). Currently in the UK, the vast majority of multifranchise sites sell only 2 makes, and overall multifranchise operations account for 18% of sites; however, this is predicted to rise to 30% by the year 2000 (International Car Distribution Programme, 1995(a)).

⁵⁹ International Car Distribution Programme sources, including L'Observatoire de L'Automobile

⁶⁰ See section 2-5-3

⁶¹ See Chapter 3

Multifranchise operations come in many different forms, from dual-franchise dealers (usually small operations where the 2 makes are sold from the same building but from separate showrooms), right up to large out-of-town franchise cluster sites selling maybe 6 or 7 different makes.⁶² As with dealer groups (who are usually the operators of the larger multifranchise sites), ICDP research has debated the advantages and disadvantages of the multifranchising form (particularly in the light of the discussions surrounding the renewal of the Block Exemption in Europe), and an assessment is summarised below.

Figure 2-23

SOME ADVANTAGES AND DISADVANTAGES OF MULTIFRANCHISING⁶³

Advantage	Disadvantage
Increased chain ownership could encourage large operators to work on the efficiency of the system and improve customer value; large operators would also provide a counterweight to prevent the manufacturers from dominating the system	Multiple ownership may dilute the attention given to promoting one franchise and therefore weaken the manufacturer-dealer link
Multifranchising operates in harmony with the principles of lean distribution and the end of 'stock push'	A multifranchise dealer might put the most effort behind the brand with the biggest customer 'pull'
More cluster sites will allow multi-make facilities to grow, which will enhance customer convenience	Reduced dedication to one brand may lead to lower standards of expert service
Clustering and dualling helps weaker brands to achieve territorial coverage	Common control of competing makes in a local market may lead to a local monopoly situation, reducing competition and keeping prices higher

⁶² For a fuller set of definitions of multifranchising types, see Tongue, A. in International Car Distribution Programme, 1996(q)

⁶³ Adapted from International Car Distribution Programme, 1995(a)

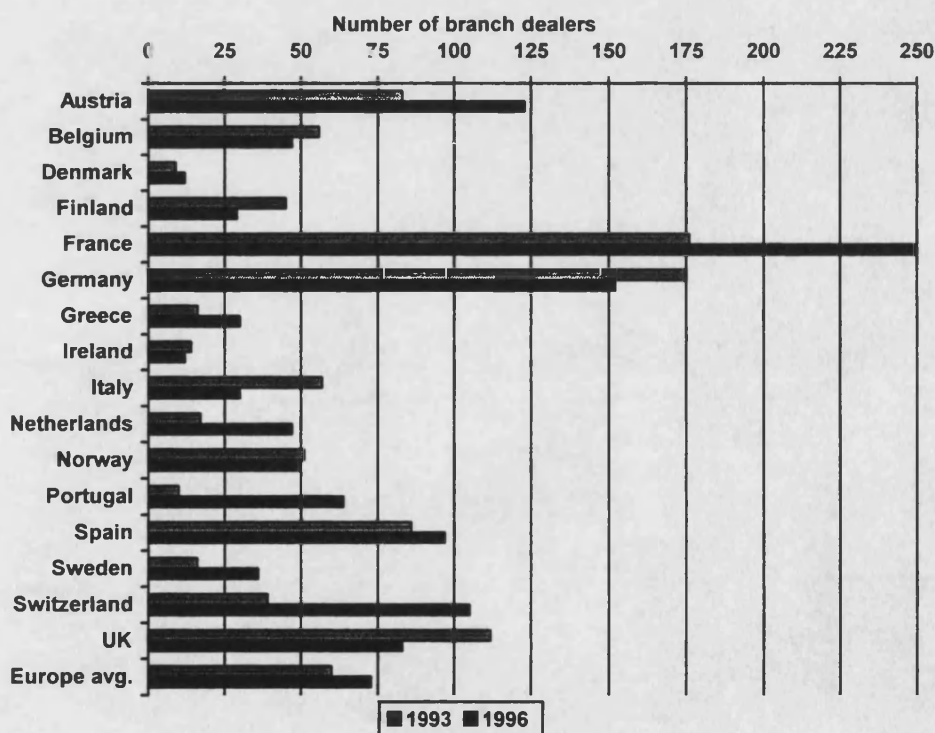
Branch dealers and direct selling

The subject of branch (manufacturer- or distributor-owned) dealers has proved to be a controversial one in the UK market in recent times although, as the following two graphs illustrate, they are a long-standing feature of the European market, particularly in France and Germany. Such operations often arouse animosity amongst independent dealers, who fear that the 'factory outlet' is operating on special terms, gets the cars it wants faster and can offer deals that the independent cannot match.

The following figure shows the diversity of network structures across Europe, with the clear dominance of the French and German markets in terms of numbers of branch outlets. This reflects both the history and the particular trading conditions of both markets. It is also worth considering here how the numbers of branch outlets are never constant, but fluctuate year-on-year as dealer networks are continuously optimised and rationalised.

Figure 2-24

BRANCH DEALERS PER COUNTRY, 1993 AND 1996⁶⁴



Similarly, looking at the number of branch outlets by manufacturer, it is clear that there are

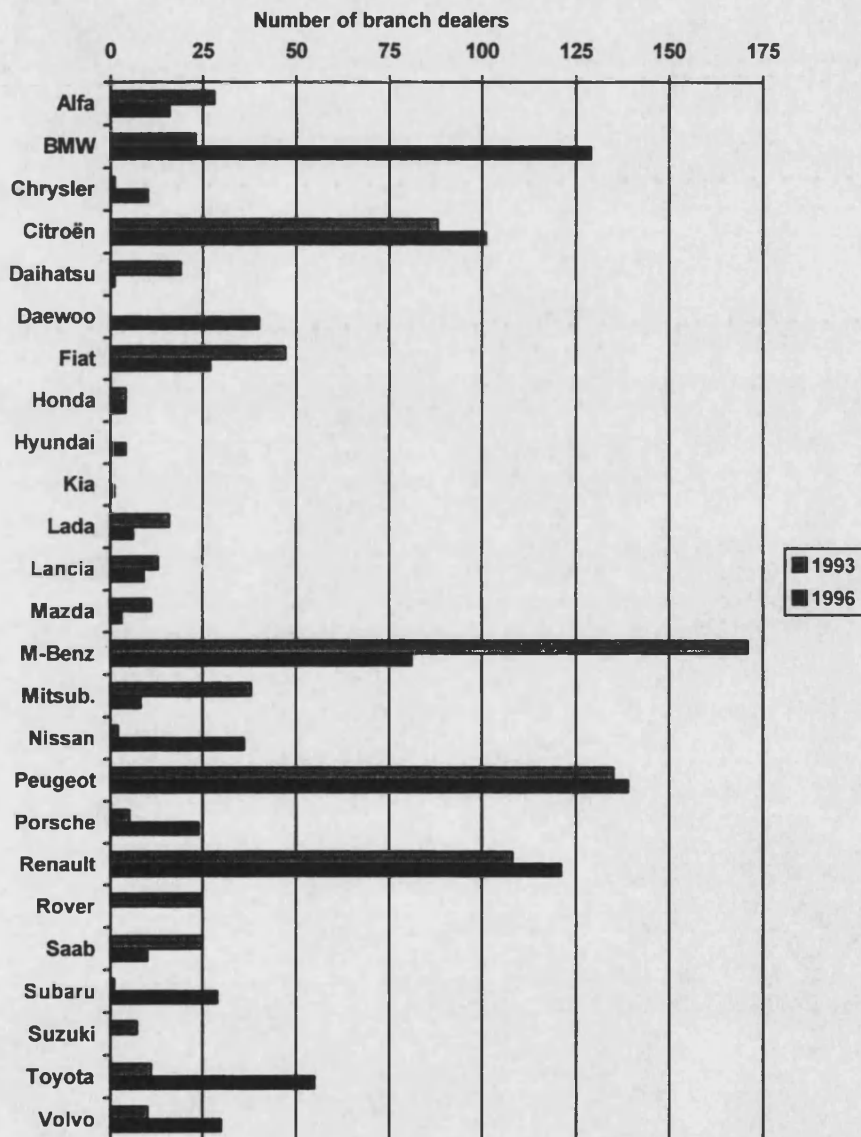
⁶⁴

Harbour Wade, 1993; *International Car Distribution Programme*, 1996(n), own calculations

significant differences between manufacturers, with Mercedes-Benz and the French manufacturers having the largest number of branch outlets. Conversely, some manufacturers (which do not figure on the following graph), do not have any branch outlets.

Figure 2-25

BRANCH DEALERS IN EUROPE BY MANUFACTURER⁶⁵



⁶⁵

Harbour Wade, 1993; *International Car Distribution Programme*, 1996(n), own calculations. Only manufacturers for whom meaningful figures for both years were available have been included. For instance, Daewoo has been included because it has gone from scratch to 40 outlets since 1993. Land Rover, etc. are not included because no figures for 1993 were available. VW, Skoda, Audi and Seat are not included because the 1993 figures were for the whole group rather than separate brands. Ford and GM are not included because of problems of definitions. Manufacturers with no branch outlets have also been omitted.

Although these figures are significant, it is important to keep them in perspective, as manufacturer-owned dealers number just 1166 out of the 62,258 main dealers in Europe.⁶⁶ In the UK, they usually exist in the high cost centres of major urban areas where independent dealers would be unable to make a profit; indeed, many branch outlets are not really profitable either, but are seen as essential 'shop windows' for the brand in high profile areas, and as such constitute a cost that the manufacturer has to bear (International Car Distribution Programme, 1994(d)). In many instances, the manufacturer or national distributor has actually had to step in to rescue an independent dealer in financial difficulties, and, on not being able to find another independent taker, has been obliged to operate the dealership itself. In some other examples, the manufacturer owns the site, which it then leases out to private operators.

Latterly, and, as shall be argued, partly due to the increased transparency of post-factory operations brought about by the adoption of some of the principles of lean distribution to be discussed in the next chapter, the place of these branch outlets within the system has been clarified. For some manufacturers, they remain a necessary, but expensive, evil for retaining a presence in certain locations. For others, they may increasingly become a viable alternative to independent franchise holders, particularly as fewer outlets become needed in any one network as roads and reliability improve. The critical jury is still very much out on the extent to which manufacturer ownership of retail outlets will evolve in the future, and this is a topic which will be returned to later in this thesis.⁶⁷

Rethinking territorial coverage

The evolution of the dealer sector in Europe towards group ownership and multifranchise sites therefore brings with it new network decisions for the manufacturers and choices for the dealer entrepreneurs. At the same time as deciding whether to allow their franchise to be represented at a multifranchise site, manufacturers are provided with an opportunity to address the more fundamental question of territorial coverage and dealer profitability.

As mentioned earlier, many industry commentators see a further decline in dealer numbers across Europe as inevitable, and many manufacturers are therefore actively seeking to reduce the size of their dealer networks by shedding some dealers and enlarging the territories worked by the remaining ones⁶⁸ (International Car Distribution Programme,

⁶⁶ International Car Distribution Programme, 1996(n)

⁶⁷ See Chapter 6

⁶⁸ Financial Times, 17/08/1995

1995(a); Europe 2000, 1991).

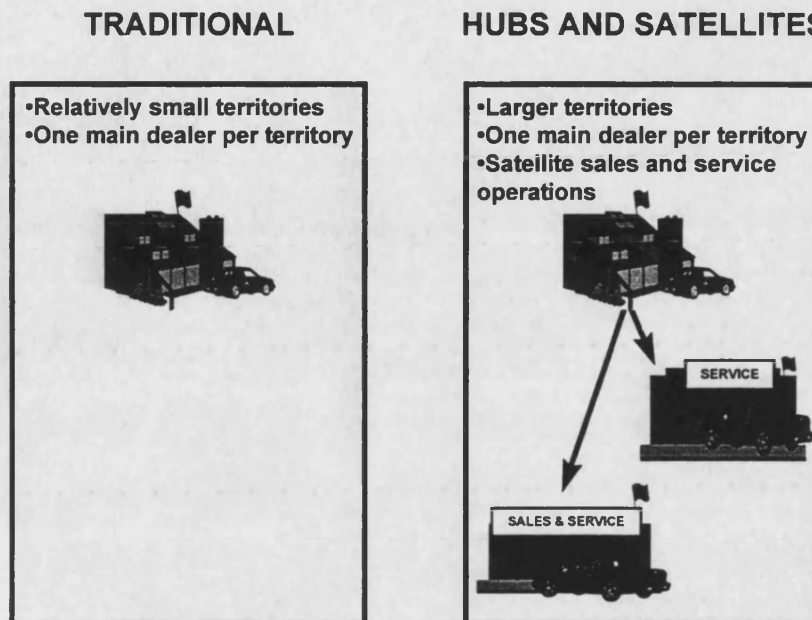
"In the medium term, the number of outlets will inevitably decline; the marketplace will realise that it is illogical to have selling points on every street corner."

Chief Executive, UK trade federation

A smaller number of dealers with larger territories would theoretically mean a larger business opportunity for each dealer, a sufficient 'footprint' across a local market to restore their profitability (International Car Distribution Programme, 1994(d); 1995(h)). Many manufacturers also believe that this increased opportunity would be sufficient for the dealer to be able to remain exclusive, avoiding the need to take on another franchise and reducing the risk to the manufacturer of its market presence being diluted. This in turn might also mean that the dealer will be able to maintain better levels of customer service. The other incentives to enlarge territories include a significant reduction in intra-dealer competition, considered to be a major factor in the lack of dealer profitability as customers trade off the discount offered by one dealer with another to get a better deal, and thus an increase in unit profits. The downside might be a loss of volume in the more marginal (which usually means the more remote) markets, as customers might turn to another make whose dealer is located nearer to them, but this could be compensated for by a move to establish satellite operations across the territory.

Figure 2-26

HUBS AND SATELLITES



Alternative retailing options

As has been seen from the above, there has already been a significant amount of experimentation with new variations on the selective and exclusive car selling system within the UK market. Nevertheless, many critics, and in particular consumer pressure groups, have debated the possibility of radically different selling methods being operated in the industry (ACEA, 1991; Calori, R. and Lawrence, P., 1991). The most commonly-suggested idea has been that of 'supermarket-style' selling, with different makes of car being lined up against each other in large outlets; it being presumed that this would bring increased choice and reduced prices for the consumer. If computers or consumer electronics could be successfully sold from large 'supermarket-style' out-of-town retail operations, why not cars?

Such schemes have thus far found very little support within the industry (certainly as far as new cars are concerned), and many more rigorous studies, such as those conducted by the ICDP, have demonstrated that the current system of franchised dealerships is actually the optimal one in terms both of delivering economic benefits to manufacturers, dealers and

customers and particularly of providing support for the unique purchase that the car represents and the demanding use to which it is put (International Car Distribution Programme, 1994(d); 1995(a) and (h)).

Figure 2-27

ASSESSMENT OF MULTIFRANCHISING OPTIONS⁶⁹

Criterion	Group ownership	Cluster site	Dual/triple, etc. site	'Supermarket -style'
<i>Local monopoly power</i>	No effect per se	Franchise dependent	Franchise dependent	Potential major problem
<i>Benefits of scale</i>	Limited - funding can be important	Very limited	Franchise, site and detailed terms dependent	Complexities likely to overwhelm any cost benefits
<i>Marketing advantage</i>	Limited, though setting high standards can be helpful	Limited - franchise dependent	Limited - possibly less than for clusters	Significant
<i>Management complexity</i>	Surmountable - additional management levels may be needed	None	Surmountable - up to 3 or 4 franchises	Major problem
<i>Total supply chain development</i>	No effect	No effect	Franchise dependent	Major problem
<i>Total commercial benefits</i>	Limited except for funding	Fixed cost coverage and franchise dependent	Franchise	Disadvantageous

As shall be discussed in the next chapter and demonstrated later in this thesis, the advent of the whole package of changes together termed lean distribution will bring a considerable amount of change to the way the current system operates. Nevertheless, the rapid pace of technological developments, and in particular the Internet, are opening up new retailing, marketing and customer-contact possibilities undreamt of only a few years ago. Some of the implications of this will be considered later in this thesis.

⁶⁹

ICDP 1994(b)

2-3-5-3 A SECTOR IN CONSTANT EVOLUTION

This brief look at some of the features of the car dealing sector in Europe has served to back up the opinions expressed in the vast majority of literature on the subject; the car European market is highly complex and, because of its constantly changing nature, highly interesting.

The ICDP research paper "*Competition in Car Distribution*" sought to draw up a list of trends that would continue to mark the dealer sector throughout the next decade. This list includes the following points

- *"continued consolidation of dealer numbers will occur, driven by the need for profitability, with marginal dealers being driven out and larger territories for the remaining stronger dealers;*
- *sub-dealer networks may appear in rural areas, or alternatively regional structures of 'hubs and satellites';*
- *the growth in multiple ownership of dealers will continue;*
- *more customer pull demand systems will develop;*
- *used car marketing will emerge as a major profit centre;*
- *there will be a strong growth in personal leasing packages*
- *the product itself will be more technological in its content, but will require less servicing. This will lead dealers to adopt 'customer-convenient' approaches such as no-appointment fast service operations, etc.;*
- *dealerships will have more team-based organisational structures, using multidisciplinary working and more information technology."*⁷⁰

This research seeks to demonstrate that underscoring all these trends, and many of the others touched upon in the preceding section, is a fundamental paradigm shift in the organisation of the entire industry value chain from manufacturer to consumer. Lean thinking, having already permeated the manufacturing side of the industry, is now being applied to the post-factory side as well. The twin concepts of lean production and lean distribution will be covered in detail in the next chapter.

⁷⁰

Adapted from International Car Distribution Programme, 1994(a)

2-4 THE EUROPEAN UNION: ASPECTS OF INTEGRATION

As outlined in the introduction, a look at the background to European integration and the Single Market Programme is an essential part of any study into the European car industry, particularly as the attempts that have been made to introduce a Single Market between the Member States of the Union represents the biggest single force for change in the post-war economy of the region, and maybe even of the world, with the possible exception of the erection and demolition of the Iron Curtain.

The vast majority of literature examining aspects of the Single European Market takes as its foundation the theory of the 'Customs Union' on which the Treaty of Rome establishing the European Community was based, a theory which is usually attributed to Viner⁷¹ (Jacquemin, A. and Sapir, A., 1989). Economic integration has been variously defined as the removal of economic frontiers between two or more economies, with an economic frontier being constituted by any barrier to the mobility of goods, services and production factors (Pelkmans, J., 1984; Emerson, M. et al, 1988), although with a distinction between negative integration, or the elimination of obstacles to trade (liberalisation and deregulation) and positive integration, the creation of equal conditions for the functioning of integrated parts of the European economy (harmonisation and coordination) (Tinbergen, J., 1954). Many have argued that, whilst there has been plenty of the former, moves to achieve the latter have been much less successful (Molle, W., 1990). There is no particular reason why these economic frontiers need necessarily to coincide with national territorial frontiers (Pelkmans, J., 1984).

The removal of barriers to free trade within a defined area to create a Customs Union, be they physical, technical or fiscal barriers or tariffs, quantitative restrictions or market-entry or-distorting barriers (Emerson, M. et al, 1988) would lead to once-and-for-all or 'static' economic welfare benefits for the whole of that area thanks to improved utilisation of resources and increased specialisation, factors classed as 'trade creation' which have to be assessed in conjunction with the mitigating 'trade diversion' effects which occur when the creation of a privileged trading area causes trade to be switched away from the most efficient producers who now lie outside the Union (Lintner, V. and Mazey, S., 1989; Molle,

⁷¹ Viner, J., 1950: "The Customs Union Issue", Carnegie Endowment for International Peace, New York

W., 1990). The net effect of the creation of the Customs Union is therefore dependent on the balance of these trade creation and trade diversion effects (Pelkmans, J., 1984; Molle, W., 1990); this neoclassical approach which explains trade in terms of comparative advantages and factor endowments has become known as 'comparative static customs union theory' (Lintner, V. and Mazey, S., 1989).

As well as these static effects, it has been theorised that the creation of a Customs Union also brings about a number of dynamic benefits (dynamic customs union theory) which would continue to be felt over the course of time (Emerson, M. et al, 1988). These would include economies of scale resulting from the need to provide for a larger market (with scale economies for the European market estimated by Cecchini at 2.1% of Community GDP or 61 billion ECU) and a consequent reduction in costs (Cecchini, P., 1988), increased company efficiency as a result of a rationalisation of industrial structures caused by increased competition (Emerson, M. et al, 1988), an improvement in the EC's trade bargaining position vis-à-vis the rest of the world, a better framework for the coordination of Research and Development and increased growth (Lintner, V. and Mazey, S., 1989; Swann, D., 1984).

If the theory of the Customs Union was persuasive in its straightforwardness as far as the 'founding fathers' of the European Community were concerned, the reality brought with it political motivations, and thus a whole raft of complications. Indeed, one of the primary driving forces behind the instigation of European cooperation in the post-war years was the perceived need to reign in the economic might and thus the military potential of Germany, a motive that persists to this day. Right from the start, and the inauguration of the European Coal and Steel Community in the early 1950s, it became clear that the presence of the supranational institutions needed to oversee the process of tariff removal within the Community and the maintenance of a common external tariff at its frontiers would constitute a constant debating point, and sometimes also a thorn in the side of the different national governments.⁷²

Nevertheless, in the years immediately following the Treaty of Rome in 1958, the process of tariff barrier removal advanced at a pace, with the original 6 Member States (the Benelux countries, Germany, France and Italy) having essentially achieved a Customs Union between themselves by 1968. However, political disputes over the supranational involvement of the new Brussels institutions in areas such as defence and agriculture had not gone away, and when these arguments coincided with the economic downturn of the

⁷² Davidson, I.: "It started with coal, iron and steel" in the Financial Times supplement "The European Single Market", 19/01/1993

early 1970s, a profound 'Euro-pessimism' set in. It became clear to Community policy-makers that the Customs Union by itself was not enough to guarantee economic well-being for its participants, as the Member States were compensating for the poor economic situation with measures such as state subsidies, national regulations and industrial policies, all of them protectionist in nature. What was needed was to reach the stage of a true Common Market by combining the achievements of the Customs Union with the removal of these 'non-tariff barriers' (Molle, W., 1990; Jacquemin, A. and Sapir, A., 1989).

According to the theoretical literature, if the commitment to the free movement of goods and services between the participant countries serves as a definition of a Customs Union, then a further undertaking to achieve the free movement of labour and capital defines the next step on the scale of integration; the Common Market (Lintner, V. and Mazey, S., 1991). A predicted consequence of this economic 'clubbing together' in Europe would be a gradual convergence in the political tendencies of the Member States (Swann, D., 1984), although this was seen very much as a parallel development and a welcome side-effect to the more immediate goals of economic integration.

So, whilst the static benefits that followed the removal of internal tariffs and quotas between the Member States quickly became apparent (internal trade growing twice as fast as world trade and quadrupling in the decade following the founding of the Community, although the exact extent to which this was due to the operation of the Customs Union can never be proved conclusively) (Lodge, J., 1989; Colchester, N. and Buchan, D., 1990), some of the dynamic benefits were taking longer to develop, and Europe was falling behind in the third industrial revolution, that of information technology and microprocessors. It was generally agreed that Europe's growing lack of competitiveness by the end of the 1970s was due to the failure to eradicate the many non-tariff barriers that continued to fragment the European economy into national markets (Molle, W., 1990; Jacquemin, A. and Sapir, A., 1989). As mentioned above, these included the state aid given by governments to prop up otherwise uncompetitive industries, restrictive practices concerning public procurement, controls on capital movements, differing product specifications and technical standards, differences in indirect taxation regimes and the persistence of border controls (Swann, D., 1984; Lodge, J., 1989; Colchester, N. and Buchan, D., 1990; Commission of the European Communities, 1991). As an example, it was estimated by Cecchini that it was costing a car manufacturer an additional ECU 286 million to develop a volume car that could be sold in each Community county.⁷³

Despite the need to move from a simple Customs Union to a true Common Market being

⁷³

Cecchini, P., 1988: p27

acutely perceived both by the European institutions and by many commentators, the long recession and sustained political opposition meant that many years passed before much could be done about it. Calls to move swiftly through the Common Market stage and on to full Economic and Monetary Union were not acted upon, apart from the introduction of the European Monetary System which linked exchange rates together, and it took a lengthy campaign on the part of the Commission to rekindle interest in European integration in the early 1980s.

As the European debate turned to what could be achieved to bring about the economic welfare benefits that the incomplete Common Market had thus far failed to deliver, authors set about postulating the outcome of the European Commission's planned liberalisation programme. Certainly the most influential study was the European Commission's own 'Cost of Non-Europe' project coordinated by Paolo Cecchini, which quantified the effects of the removal of the identified non-tariff barriers in each sector of the European economy, and whose contributors were heavily drawn on in the formulation of the legislative package that became the 1985 Single European Act (Cecchini, P., 1988), with many of their calculations being employed as 'publicity material' by the Commission in an attempt to gain public backing for the Programme.

Figure 2-28

THE BENEFITS OF THE INTERNAL MARKET⁷⁴

Cost savings arising from the abolition of frontier checks and other formalities	ECU 13 to 24 bn
Gains arising from the opening-up of public procurement markets	Approx ECU 17 bn
Employment (figures overtaken by events)	2 to 5 million new jobs
Scale gains arising from larger production units	2% of GNP

The overall economic effects were examined by Emerson et al who predicted, amongst other things, a significant reduction in costs, the removal of constraints on economic activities imposed by the small size of markets and a consequent rise in economies of scale, an increase in demand and therefore competition as new products became available to some for the first time, leading to downward pressure on prices, improved and rationalised organisational structures and more opportunities to introduce product and process innovation (Emerson, M. et al, 1988).

⁷⁴ Commission of the European Communities, 1991: p7

The programme to remove as many of these barriers as possible was laid down in the White Paper produced by Lord Cockfield and implemented in the 1985 Single European Act, with a target deadline set for 31 December 1992. Once the Single Market Programme became public, the rush of literature treating every conceivable aspect of the new 'Internal Market' turned into a veritable torrent of works of all types, from academic studies (Cutler, T. et al, 1989; Fahy, J., 1993; Lodge, J., 1989) to guidebooks and articles for managers outlining strategic opportunities (Dudley, J. and Martens, H., 1993; Lynch, R., 1990; Magee, J., 1989). Almost all of these works adopted a descriptive approach, basing predictions for the future on the extrapolation of trends they had already identified. Molle, for instance, followed these stages of integration through and drew implications for firm organisation at each point (Molle, W., 1990).

Figure 2-29

**PRODUCTION AND TRADE PATTERNS OF MULTINATIONAL,
MULTIPRODUCT COMPANIES UNDER DIFFERENT TRADE
REGIMES⁷⁵**

Trade regime	Location of production units for each product	Dominant part of firm
<i>Free trade</i>	One plant (usually home base)	Production and export
<i>Protectionism</i>	Numerous plants, one in each major national market	National companies
<i>Integration</i>	Limited number of plants at good locations	Matrix of national and product organisations
<i>Free Internal Market</i>	One optimal location	International product divisions

Colchester and Buchan pointed out the continued validity of this approach; as many of the liberalising measures took or are still taking a long time to be completed, there is no reason why predictions concerning the economic welfare benefits that would accrue and strategic options that would be available following the completion of the Single Market in 1992 should cease to apply simply because the mythical starting date of 1992, more a public rallying point than anything else, has actually passed (Colchester, N. and Buchan, D., 1990).

⁷⁵

Molle, W., 1990: p282

Figure 2-30

THE IMPACT OF THE REMOVAL OF NON-TARIFF BARRIERS ON THE VALUE ADDED CHAIN⁷⁶

Component of value added	Possible nature of the impact
Research and development	Growth in the number of joint projects More homogeneous environment at European level
Supplies	Wider range of suppliers Lower prices
Logistics	Lower transport costs Relocation of storage facilities (better adapted to an integrated market)
Production	Increased production at each plant Reduction in the number of production plants
Marketing and distribution	Centralisation of product management at European level Community-wide marketing campaigns
Consumers	Availability of a wider range of products Increased demand (growth effect) and lower product prices

The Single European Act certainly entered the consciousness of the European citizens, based around the reiteration of the four 'basic freedoms' (free movement of people, goods, services and capital) through such symbolic advances as the removal of border controls and the simplification of customs documentation. And yet, the Act was no mere publicity stunt, as it also added to the Treaty of Rome new supranational commitment to Research and Development, to the protection of the environment, to health and safety in the workplace and to a more concerted regional policy (Colchester, N. and Buchan, D., 1990). It also enshrined the principle of Qualified Majority Voting which since the mid-1980s has accelerated decision-making and institutional procedures and which has brought the Community (now Union) through the Maastricht Treaty and on to the threshold of concrete steps towards Economic and Monetary Union. Few would deny that the Single Market Programme has fulfilled the role of 'kick-starter' for the Common Market that its instigator Lord Cockfield intended even though, as shall be discussed in the next section, there are still today many areas where liberalisation remains incomplete.

"Europe stands at the crossroads. We either go ahead - with resolution and determination - or we drop back into mediocrity. We

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Maves, D., 1991: p14

*can now either resolve the complete integration of the economies of Europe or, through lack of political will to face the immense problems to be solved, we can simply allow Europe to develop into no more than a free-trade area."*⁷⁷

Thanks in part to the new supranational powers granted to the Commission by the Single European Act, and the momentum of economic integration that built up in the latter half of the 1980s, 'Europe' has become the basic parameter around which business strategies and initiatives are based (Lodge, J. 1989; Colchester, N. and Buchan, D., 1990). However, this phenomenon seems to operate quite independently of the general levels of public support for the principles of European unity or for the workings of the common policies. It is taken for granted now that a company's strategy will be formulated around a consciousness of the European marketplace (Lodge, J. 1989; Hufbauer, G., 1990). For a global industry such as cars, the existence of a single European marketplace is considered to be more important than the supranational legislation-producing institutions that police it (Calori, R. and Lawrence, P., 1991). All the European manufacturers sell the majority of their cars to the European market (including the EFTA countries); as we have seen, the internationalisation of the car industry predated by a long time the formation of the European Community and would arguably have continued to develop even if the Community had never existed. It would also continue should the Union crumble tomorrow. Therefore, even if there is room for debate here as to the actual importance and influence of the European Community's institutions, the concept of a Single European Market is very much central to company strategy, as the number of mergers and alliances occurring between all sorts of industrial actors testifies. What is open to question is whether these companies view the market in their own sectoral terms or terms of *the* Single Market as Brussels would like them to. This makes it virtually impossible for the researcher to be able to differentiate whether certain developments were brought about by the advent of the Single Market, or whether they would have occurred anyway as part of the general evolution of the industry. Nevertheless, many items of legislation concerning the car companies emanating from the Union have had a very significant effect on the European industry, and the level of dependence on their home markets that many of them display demonstrates that they are not as 'global' as they would like us to believe (Calori, R. and Lawrence, P., 1991).

"Through the internal market, we intend to create competitive structures in the European Community. The opening-up of national markets is an important step in that direction, since it is compelling firms to think more in European terms. And yet this is merely an

*intermediate step towards being able to compete successfully on the truly relevant market, the world market."*⁷⁸

2-5 THE SINGLE EUROPEAN MARKET IN CARS

Given the significance of the car industry within the European Union, it is understandable that much has been written regarding the barriers to free trade in cars across the territory, and on the prospects for the industry following their removal. As we have seen, the European motor industry is one still very much caught up in the process of rationalisation as it seeks to adapt itself to new levels of global competition and new ways of organising company activity, with the post-factory area set to be the scene of the future struggle for market share, and even for survival. The attempts that have been made by the Commission and others to open up a Single Market for cars within the European Community are often viewed as just a further complication.

*"The future of the European motor vehicle industry is to be seen as one of substantial structural change, including a reorganisation of links with upstream and downstream industries and the regrouping of companies."*⁷⁹

Many of the non-tariff barriers legislated for in the Single European Act were directly applicable to the car industry, and as such have been the subject of much attention concerning the progress of their removal.

"One major contribution to the process of industry-wide modernisation of structures is the completion of the single market: the fragmentation of the European car market, which considerably hampered our car industry's prospects, will come to an end once technical and environmental standards are harmonised and indirect taxation and

⁷⁸ Martin Bangemann, quoted in Commission of the European Communities, 1991: p19

⁷⁹ Commission of the European Communities, 1992: p5

*charges are brought closer together. Furthermore, the single market will stimulate intra-Community collaboration compatible with competition requirements, a process already underway.*⁸⁰

Many authors have recognised the European car industry as having two categories of barrier to free trade; internal and external (Commission of the European Communities, 1992; Hufbauer, G., 1990; National Consumer Council, 1990; Perrin-Pelletier, F.; Tongue, C., 1991; Mayes, D., 1991), and both have yet to be eradicated conclusively. Many of the internal barriers have now been legislated for, but continue to provoke debate in various ways.

2-5-1 INTERNAL BARRIERS

The persistence of national Type Approval Regulations and other technical standards provided the manufacturers with an easy means of segmenting the market by producing cars of differing specifications for the different national markets (Commission of the European Communities/Ludvigsen Associates, 1988; Dudley, J. and Martens, H., 1993), and therefore their removal was one of the Commission's priorities.

*"In general terms technical harmonisation is the prerequisite for the completion of the internal market, whether one is referring to the 'Europeanisation' (which does not prevent differentiation) of production, which is over-gearred towards national markets, or to the effective movement of products without difficulty at frontiers."*⁸¹

The creation of an EC-wide Whole Vehicle Type Approval proved to be fraught with political difficulties. Since a single standard implies the need for consistent monitoring of goods both produced within and imported into the Community, the link to issues of external trade was unavoidable (Assemblée Nationale, 1992). Smith and Venables describe the moves towards a harmonised standard as being 'a hostage of external trade policy' (Hufbauer, G., 1990), as the protectionist countries such as France and Italy maintained their stance that different technical standards were an effective means of

⁸⁰ Commission of the European Communities, 1992: p19

⁸¹ Commission of the European Communities, 1992: p7

controlling imports from outside the Community. What these countries also recognised, but were loath to admit, was that these standards helped to protect national component manufacturers from free competition, as few European *équipementiers* could warrant the costs of tooling up to produce, say, yellow headlight bulbs just for the French market. 41 of the 44 identified technical differences between markets were agreed relatively quickly, but the 3 outstanding ones, relating to glass, weights and measures and dimensions, were stalled for years for the reason given above.

When a Community-wide system was finally agreed in early 1992, the political compromise was such that the system was only made optional; manufacturers could choose whether to homologate the car according to either the European or to national regulations. So, this did nothing significant to stop the manufacturers from producing essentially different cars for each market, something which also contributes to the maintenance of price differentials (one of the Commission's avowed targets) or to stop them from producing different specifications to meet the tax regimes of each market.

Similar arguments raged over the setting of an EC exhaust emissions standard, with the French and Italian companies not wishing to see their German competitors profit from the head start they enjoyed in catalytic converter technology. The industry's trade associations became totally bogged down over the issue, and the companies turned to their respective governments to champion their cause. The result was a standard watered down to the lowest common denominator, and the EC emissions standard is consequently much less severe than its American equivalent, which is forcing the pace of electric car development by requiring that a certain proportion of cars sold in California must be emissions-free (i.e. electric) by 1998 at the latest (Arp, H., 1993; Fafard, P., 1995; Bricnet, F. and Mangolte, P-A., 1990). This means that the European manufacturers have little incentive to raise their game to the world's best practice, limiting their chances of being competitive in the American market (which now of course includes Canada and Mexico following the NAFTA agreement) and penalising the European consumer. A further complication here concerns the interpretation of environmental legislation by Member States. As has been backed up by numerous cases brought before the European Court of Justice, Article 130 of the Single European Act allows Member States to introduce environmental legislation (and even the complementary tax regimes) more stringent than the EC norm (Commission of the European Communities, 1991; Bricnet, F. and Mangolte, P-A., 1990). This is to prevent products from countries with a long tradition of tough environmental and other legislation, such as Denmark and Germany, being put at an unfair cost disadvantage by those from the laxer countries in the Community. When this facility is related to cars, and especially given the lack of any enabling legislation to guide the Member States, it becomes clear that

individual countries are free to set higher emissions standards or to introduce fiscal measures such as purchase taxes, carbon taxes or road pricing, tactics that would inevitably lead to further market fragmentation and price differentials. Again, this was considered to help each market maintain its own unique technical requirements, something which would help to stave off foreign competition, especially from the Japanese, but which could hardly be considered to be in the consumer's best interest (Banville, E. de and Chanaron, J-J., 1991).

A further illustration of the entrenched nature of the Member State car markets is the continued variation in vehicle examination regulations. In 1994, the European Commission finally issued a guideline that all new cars should be tested for roadworthiness after 4 years, and then once every 2 years. A look at the many different systems in operation across Europe shows that even a relatively simple requirement such as this will cause a significant amount of upheaval and therefore opposition in each market.

Figure 2-31

CAR ROADWORTHINESS EXAMINATIONS IN EUROPE⁸²

Country	First test after...	Thereafter every...	Additional comments
<i>France</i>	5 years	3 years	This test has only started recently - previously, cars were only tested when sold
<i>Italy</i>	10 years	5 years	The system is widely abused
<i>Great Britain</i>	3 years	1 year	
<i>Germany</i>	3 years	2 years	Cars must be inspected if they are involved in an accident
<i>Spain</i>	5 years	2 years	Cars over 9 years old are checked every year
<i>Luxembourg</i>	3½ years	When the car changes hands	
<i>Sweden</i>	3 years	Next test after 2 further years, thereafter every year	Test coincides with insurance and road tax renewal
<i>EU guideline</i>	4 years	2 years	

The issue of varying tax regimes in the Member States (BEUC, 1989; ACEA, 1993 and 1995) is another one to have ensured the continued fragmentation of markets, enabling the manufacturers to maintain different price regimes, and indeed model ranges, in different Member State markets (Mayes, D., 1991; Colchester, N. and Buchan, D. 1990; Mertens, Y. and Ginsburgh, V., 1985). This is an area which seems to be converging gradually of its own accord, almost independently of the EC's attempts to legislate for it, although progress is still painfully slow, as definite progress in the convergence of some areas such as VAT rates has often been compensated for by further 'hidden' taxes on ownership and motoring that restore the status quo (ACEA, 1993). These include special purchase taxes, import duties, registration taxes, special consumption taxes and duties paid on fuel, servicing, parts and even on insurance premiums. It has been estimated that the overall tax burden on the acquisition and registration of new cars as a percentage of the pre-tax price still ranges between 12% in markets such as Luxembourg or Germany and 215% in Greece or Denmark (ACEA, 1993). These differences condition the pre-tax price that the manufacturers must charge if the final selling price of their product is to remain competitive in the marketplace, with margins in the profitable markets doubtless being raised to compensate for the tax-heavy markets. This also helps to explain the phenomenon of parallel imports, under which individual customers or private companies shop abroad for their cars in the cheapest markets; in order to maintain their incomes, manufacturers and governments like to leave obstacles in the way of such customers in the form of technical differences and complicated administrative procedures. Commission legislation in this area has been very limited, partly due to the need for unanimity, and partly because of the political storm that an attack by Brussels on a national government's revenue raising opportunities would bring. The single biggest spur to convergence in this area would be a parallel commitment to move towards a single currency (ACEA, 1994).

Figure 2-32

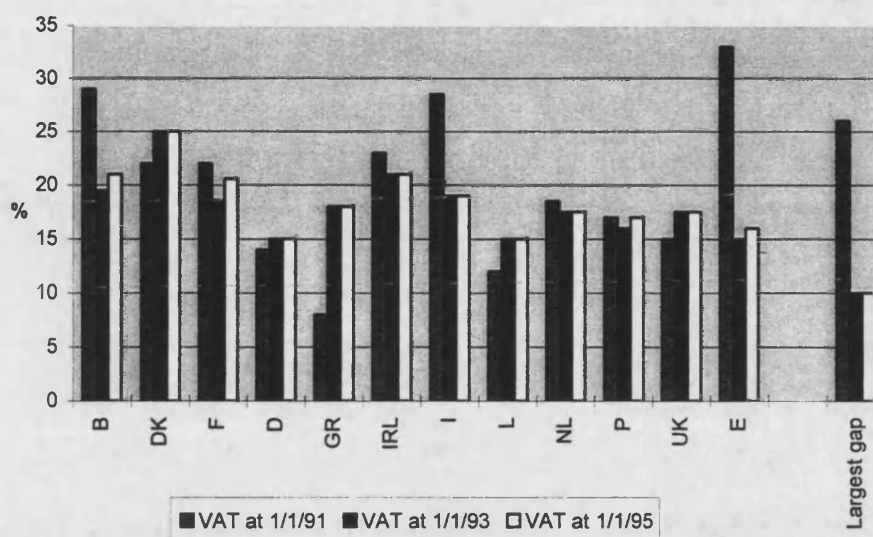
VAT IN EC COUNTRIES 1991-1993⁸³

Figure 2-33

TAXES ON CAR ACQUISITION IN THE EUROPEAN UNION⁸⁴

	VAT	SALES TAX		REGISTRATION CHARGE
		PASSENGER CARS	COMMERCIAL VEHICLES	
Belgium	21%	based on cc + age e.g. 1.8 litres: 5000 BF	none	2500 BF
Denmark	25%	105% up to 34,400 Dkr, 180% on the remainder	95%	1000 Dkr
Germany	15%	none	none	54 DM
Spain	16%	<1.6 litres: 7% >1.6 litres: 12%	none	8950 pts
France	20.6%	none	none	95 FF-195 FF and parafiscal charge
Greece	18%	new: 10%-75%	new: 0%-30%	8%-16%
Ireland	21%	<2.5 litres: 23.2% >2.5 litres: 29.25%	13.3% for light CVs, otherwise £40-£100	
Italy	19%	none	transfer taxes	new: 230,000 Lire used: 210,000 Lire
Luxembourg	15%	none	none	1128 Flux
Netherlands	17.5%	petrol: 45.2% minus 3394 Dfl diesel: 45.2% minus 1278 Dfl	none	22-93.25 Dfl

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ACEA, 1993: p8

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Source: ACEA Tax Guide: Motor Vehicle Taxation in Europe, 1995 edition

	VAT	SALES TAX	REGISTRATION CHARGE	
		PASSENGER CARS	COMMERCIAL VEHICLES	
Portugal	17%	based on cc e.g. 1.6 litres: 907089 esc	none	5000 esc
UK	17.5%	none	none	none
Austria	20%	based on fuel consumption 7%-14%		
Finland	22%	100% of taxation value minus 4600 Fmk	none	
Sweden	25%	excise tax based on weight and pollution	excise tax	

Further complications in this area have been provided in the form of national scrappage incentive schemes introduced by several governments ostensibly to help remove older, more polluting cars from the roads. In France the *Baladurette* and *Jupette* schemes (nicknamed after the Prime Ministers responsible for them) which ran over the 1994-1996 period helped to stimulate new car sales, particularly small models, by providing a bonus to customers who traded an old car in. The schemes played into the hands of the national manufacturers Renault and PSA and then the importers of small cars respectively, and were responsible for an alleged additional 250,000 sales in the first 8 months of 1996 alone.⁸⁵ Although undeniably successful in their objective of removing old cars from the roads, such schemes inevitably increase the fragmentation of national markets by artificially stimulating sales. Similar schemes are also running in countries such as Ireland and Italy, ostensibly with the aim of removing older, less environmentally-friendly cars from the roads, but also with the welcome side-effect of boosting the car market.

Overall, however, it is clear that the single largest remaining obstacle in this field to the achievement of a true internal market is the lack of a single currency. A significant body of industry opinion considers that the continued lack of a single currency acts as a tax on their highly international business, and that the industry will only be able to take full advantage of the Single European Market when both tax harmonisation and monetary convergence have been achieved (EIU, 1995; VDA, 1996). Whilst this argument undoubtedly holds true from a purely industrial perspective, the political situation is, of course, far more complicated ...

The granting of state aid to car and component manufacturers, heavily policed as it is by the Commission's competition policy regulations contained in Articles 85 to 92 of the Treaty of Rome, is one that has been much analysed and commented on (Bhaskar, K., 1988; Bhaskar, K., 1990; Jones, D., 1981), and this interest has been further encouraged by

a number of highly public cases. In 1988, both Renault and Rover fell foul of Competition Commissioner Sir Leon Brittan. Renault was ordered by the Commission to cut its car capacity by 15% and its truck capacity by 30%, otherwise it would be required to pay back FF12 billion out of a FF20 billion aid package it had received from the French government to clear some of its debts prior to being readied for privatisation. Similarly, Rover's then new owner British Aerospace was ordered to repay £44.4 million it had received in 'sweeteners' from the British government to take the ailing company off its hands; both these cases were widely publicised and created political storms in the respective countries, thus setting a precedent that endures to this day for decisions of this nature to be pounced upon by anti-Europe media and politicians as evidence of 'meddling from Brussels'. Such is the strategic importance of the industry to the European economy, and such is the tradition of governments propping up ailing 'national champion' companies, together with the many instances of alleged double standards on the part of the Commission (refusing one company's requests to receive state aid whilst awarding Community funds to another) that many commentators suggested that Europe should have an equivalent to the Japanese government's MITI agency that coordinates policy to ensure that the best interests of the industry are catered for (Banville, E. de and Chanaron, J-J., 1991; Lehmann, J-P., 1992; Jones, D., 1981). This proves once again the need to analyse the industry from a global perspective, taking into account all the different actors that go to make up the network. The matter of state aid is not merely a competition policy one; it is inextricably linked with the EC's regional and social policies, especially since the loss of a car plant means many thousands of redundancies, usually in long-standing industrial regions that are already in decline, and also to external trade policy, as part of the question of how to get the European industry into a situation where it will be able to defend itself against the competitive challenge of outsiders, especially the Japanese (Commission of the European Communities, 1992; Bhaskar, K., 1990). More recently, the Commission's stance with regard to competition policy implementation has toughened, partly due to incidents such as those mentioned above and the character of the then Commissioner Sir Leon Brittan, and partly due to the drive towards the Single Market. At the same time, however, consistency has improved and a shift of emphasis has crept in. A specific threshold now exists, with aid packages exceeding ECU12 million (£9.88 million) required to be submitted to the Commission for approval prior to being distributed (as was the case in a recent example involving the Spanish government and Seat.⁸⁶ The aid has to form part of a genuine restructuring package rather than just keeping the ailing firm afloat, and the use of state aid together with Union funds to further regional policy objectives has become more explicit; despite opposition, Ford and VW were granted aid to set up their joint 'people-carrier' factory in rural Portugal, and a similar scheme allowed Fiat to receive £2.5 billion for a

⁸⁶ Financial Times, 6/6/1995

factory in the Mezzogiorno region of Italy, despite the fact that it added 450,000 units to an already over-capacitised market.⁸⁷ Overall, the Commission has increasingly started to add stipulations to the aid packages it approves, using the opportunity to induce restructuring by means of a 'back-door' industrial policy.⁸⁸

2-5-2 EXTERNAL BARRIERS

The external barriers to trade have in general been the more polemical of the two, at least at a political level. Much has been written, particularly by consumer organisations, on the subject of national import quotas and Voluntary Export Restraints (VERs - 'voluntary' hardly being used in its dictionary sense given the threats of more drastic action in the event of non-compliance that usually accompany these 'agreements') on Japanese cars entering the Union, and most commentators have concluded that restrictions on the importation of Japanese cars actually play into the hands of the companies that produce them, enabling them to charge higher prices than they would otherwise have been able to in Europe thanks to their products' rarity value, and also to fill up their quotas with the more upmarket models of their ranges, models which provide them with greater profit margins (National Consumer Council, 1990; Morris, J., 1991), whilst at the same time allowing the European manufacturers to rest on their secure domestic markets, providing them with little incentive to raise their competitiveness (Gandillot, T., 1992; Banville, E. de and Chanaron, J-J., 1991). One estimate put the annual cost to the European consumer of restricting imports to be in the range of 2.4 to 2.8 billion ECU, reckoning that this could well have accounted for the 20% gap between EC car prices and the notional world average.⁸⁹ Overall then, they are seen as doing little more than severely distorting competition, and costing the European consumer in terms of both price and choice (National Consumer Council, 1990; Perrin-Pelletier, F.).

The debate concerning the advantages and disadvantages of import restrictions and the presence of transplant factories, necessarily linked to questions relating to the EC's External Trade and (non-existent) Industrial Policies reached its peak in the immediate aftermath of the signing of the 1991 agreement 'Elements of Consensus' between the Commission and the Japanese government (the tortuous negotiations are chronicled by

⁸⁷ Financial Times, 10/12/1992

⁸⁸ Le Nouvel Économiste, 05/02/93

⁸⁹ National Consumer Council, 1990: p23-4

Gandillot and Mason) (Gandillot, T., 1992; Mason, M., 1994). Some, such as Lehmann, predicted a repeat of the scenario that had been played out in the USA since the mid-1970s, with the indigenous producers being brought to their knees by the Japanese companies (he lists six major threats hanging over the European industry, Japanese imports, Japanese transplant production in Europe, the prospect of gaining the same market share here (30%) as they enjoy in the USA, Japanese exports from their American plants, Japanese technology and European impecuniosity and labels them the 'Six Horses of the European Automotive Apocalypse') (Lehmann, J-P., 1992). Many in this category have failed to appreciate the realities of a global industry, in which a car produced by a Japanese company in Europe is worth many more jobs than a car produced by a Japanese company in Japan and exported to Europe (FIA, 1989). Others conclude on the need for a common policy at EC level, if not classical interventionism, then certainly a coordinated sectoral approach (Banville, E. de and Chanaron, J-J., 1991; Jones, D., 1981; Tongue, C., 1991). Finally, a third group, and this includes the ever optimistic Commission publications, demonstrate their faith in free competition and the fighting spirit of those European manufacturers that have the will to survive the expected Japanese onslaught (National Consumer Council, 1991; Hufbauer, G., 1990; Commission of the European Communities, 1992), albeit with a certain reserve concerning the need for greater coordination of Research and Development.

*"It is wrong to believe that Japanese cars can be kept off the European market through import quotas or ban of local production. ... The Japanese car is beaten only by manufacturing a better product. It is not a race between two commercial powers, but a competition to produce the best car for the consumer."*⁹⁰

Whilst discussion on the nature of trade with Japan continues, the emerging focus of current attention is Korea, another highly restricted market harbouring extremely ambitious producers who are in the process of accelerating their European presence dramatically. The current global trading climate has moved away from quotas and other quantitative restrictions, but it remains to be seen how, in the face of increasing pressure from its domestic manufacturers, the European Union will achieve its aim of ensuring reciprocity of access to the Korean market for European cars.

⁹⁰

Martin Bangemann in La Repubblica (20 May 1990) reported in Calori, R. and Lawrence, P., 1991: p122

Figure 2-34

THE 'ELEMENTS OF CONSENSUS' AGREEMENT⁹¹

From 1993:

- Japanese manufacturers agreed to limit the total number of cars exported to the EU to 1.23 million until 2000
- Specific national ceilings were imposed for France, Spain, Italy, Portugal and the UK, to prevent these formerly restricted markets from being overrun with imports
- A monitoring system for these markets and the EU generally was set up so that modifications to the limits could be arranged if necessary
- BUT this monitoring is dependent on market projections, which have proved very difficult to agree

From 1999:

- The EU market will be fully opened to Japanese imports

2-5-3 THE BLOCK EXEMPTION

The final, and, for the purposes of this research, the most relevant of the barriers to free trade within the European Union is the issue of the selective distribution system operated by all the car makers. Although the 10 year Block Exemption (EC Regulation 123/85) from Article 85 of the Treaty of Rome's competition articles allowing manufacturers to segment their sales territories and to appoint exclusive dealers for each did not originally form part of the Single Market legislative programme, the period leading up to its renewal in 1995 saw a fierce debate centred essentially on the widely-publicised detrimental effects the arrangement was presumed to have on consumer welfare, including a restriction of freedom of choice (Perrin-Pelletier, F.; National Consumer Council, 1990), and the issue of its role in the significant price differentials observed between the various Member State markets (Mertens, Y. and Ginsburgh, V., 1985; BEUC, 1989; National Consumer Council, 1990; Commission of the European Communities, 1992).

⁹¹ Butt-Philip, A. and Porter, M., 1995

In the UK, the matter was further brought into focus by an investigation into the workings of the car industry launched by the Monopolies and Mergers Commission in 1990. Prompted by a leaked report to the press in May 1991, the findings of the enquiry were made public prematurely; they identified the existence of at least 2 'complex monopolies'. One was the persistence of the 'Gentlemen's Agreement' voluntary export restraint operated between the UK and the Japanese Manufacturers' Associations, and the other was the selective and exclusive distribution system⁹² (Ruigrok, W. and Van Tulder, R., 1991). A 'complex monopoly' is considered to exist when two or more persons or companies supply or are supplied with at least one quarter of the goods or services of a particular description in the market, and when they conduct their affairs in such a way as to restrict or distort competition in connection with this supply. If the market shares of the two largest manufacturers in the UK market are added together, they exceed 25%; the same situation would be true at a European level. However, despite this label, the Monopolies and Mergers Commission considered that the high level of competition present in the industry demonstrated that the matter was not as clear-cut in practice as it was in theory. This ruling effectively 'passed the buck' to the European Commission, who were considering the matter themselves in the build-up to the renewal decision.

Many argued that the system should be abolished completely, and, until the final stages of the debate leading up to the renewal date, it had largely been left to the manufacturers themselves to point out the other side of the argument, namely that Selective Distribution provides them with the stability they need to invest in the considerable expertise and infrastructure needed to support the product during its lifetime, thus enabling them to ensure that the consumer receives the best possible quality of service and the utmost convenience (International Car Distribution Programme, 1994(a)). Furthermore, the image of the manufacturer is heavily dependent on the quality of this after-sales support provided, and so it was argued that it is only reasonable to expect that they will want to be able to dictate certain standards and practices to those charged with carrying out these services on their behalf (Ludvigsen, K., 1994).

One of the central pieces of work of the first phase of the ICDP sought to unravel the debate and to inform both the industry and its regulators. Given that the outcome of the Block Exemption renegotiations would have the potential to transform the operation of every dealer in Europe (International Car Distribution Programme, 1994(a)), it was important to establish exactly what a 'selective and exclusive' system meant for them beyond the principle of an allocated sales territory. Exclusivity can be taken to mean many

⁹² Financial Times, 06/02/1992; Daily Telegraph, 17/02/1992

different things in the dealer sector, and it was not always clear during the renegotiation phase that the European Commission fully understood which interpretation it was using (ACEA, 1995; International Car Distribution Programme, 1994(c)). It can mean exclusivity of the dealer outlet, meaning that only cars of that make can be sold from that specific premises (again, this is open to interpretation as we shall see in the case of multifranchising). Secondly, it can mean exclusivity of dealer ownership or territory, or a restriction imposed on the dealer principal or company from operating other outlets for another franchise (or even for the same franchise) elsewhere. Several manufacturers considered such a limitation essential to prevent any one dealer from becoming responsible for too large a proportion of the manufacturer's sales in any one region; they did not want to 'put too many of their eggs into one basket' in case the dealer should fail or abandon the franchise abruptly. Finally, it can mean exclusivity of channel, or an undertaking that cars shall only be officially sold through the franchised dealers and not through other outlets (such as *mandataires* or directly from the manufacturers).

All of these interpretations can be observed as forming part of manufacturer strategies towards selective distribution. For the franchised dealer however, exclusivity relates to the facility, to the management and to the running of the business (International Car Distribution Programme, 1994(d)). Under the heading of facility is included the requirement to have a dedicated showroom and service facility for the make in question. As shall be seen, manufacturers are increasingly tolerant of franchises sharing sites and even workshops, but showroom sharing is only sanctioned in exceptional circumstances, usually when it is the only means to maintain marque representation in the territory. Manufacturers usually insist on separate dealer principals or general managers for each make the dealer might represent, along with separate sales and service staff, who will have been trained by the manufacturer or national distributor⁹³. Finally, the manufacturers will expect their franchise to operate as a separate business unit with its own profit and loss accounts, so as to prevent financial or other difficulties encountered by the dealer with one of his other franchises from spreading to affect the performance of the rest. This brief explanation only skims the surface of the subject, but it is clear that the vast majority of European dealers do conform to these definitions of exclusivity.

All through the renegotiation discussions, the European manufacturers stuck to their belief that the maintenance of the selective system was in the best interests of the European consumers, and through this conviction they sought to ensure that they got their way regarding what could be permitted under the notion of exclusivity (ACEA, 1995). Their

⁹³ The term dealer here encompasses both individual 'owner-driver' entrepreneurs and public or private groups

chief concerns could be divided into 4 categories; firstly their corporate image. They believed that customers expected to have the full range of products available at the dealer's premises, to have a knowledgeable and competent sales and service staff, with the manufacturer standing fully behind the dealer in case things go wrong (warranties, etc.). To back this up, they would point to the huge outlay that the purchase of a car meant for the average consumer, and thus to the need for there to be a formal mechanism to provide a link for the customer back to the manufacturer. Furthermore, the high value of the product and the demanding use to which it is put by the consumers is such that they considered it to be only reasonable for them to expect to have control over how the car is presented and sold in the marketplace. The second category of manufacturer concern related to their desire to maintain an exclusive dealer network. Again, the belief was that a solus dealer would deliver better performance because of its focus on selling one make; it would have dedicated sales staff and local advertising devoted to just one make (International Car Distribution Programme, 1994(a) and (c)). However, it is clear that exclusive networks will be increasingly hard to maintain unless a way can be found for them to become more profitable. The third concern related to the technical knowledge and expertise required to service and repair the increasingly complicated modern car, not forgetting the important need to consider the safety aspect of a product used at high speeds and over long distances. Finally, the manufacturers expressed worries about how to ensure the continuity and cohesion of their territorial coverage if dealers were able to swap franchises at will or to build up competition between the different brands they might represent at one site in a multifranchise operation. Behind these concerns of course was the desire not to lose any elements of control that they held over their dealer networks, although, as one of the interview respondents pointed out, this belief was not necessarily their best course of action.

"Ultimately, it would be daft for the manufacturers to oppose changes to the Block Exemption, as they will need strong dealer partners in the future."

Pilot interview with policy director of UK trade federation

The renewed regulation finally passed through the European Commission stage in June 1995⁹⁴, and contained new or revised clauses which:

- allow and encourage dealers to take on additional franchises, provided that they occupy

⁹⁴ The new Block Exemption is enshrined in Commission Regulation (EC) No 1475/95, published in the Official Journal of the European Communities, No L 145/25, 29/06/1995

separate premises (although they may be on the same site) with separate management and 'no possible confusion between the makes'. Manufacturers will have the facility to terminate a dealer's contract if the latter decides to sell another make, but only if the termination is based upon 'objective criteria', with arbitration being used in the event of disputes;

- ensure that sales targets may only be set by mutual agreement between manufacturers and dealers, rather than the former imposing their own objectives. Arbitration has again been provided for;
- permit dealers to obtain spare parts from independent sources, provided that they are of 'equivalent quality';
- require manufacturers to pass on technical information to suitably-qualified independent garages and repairers;
- gives dealers the freedom to prospect for sales outside their allocated territory;
- extends the minimum duration of manufacturer-dealer contracts from four to five years and the minimum notice of termination from one to two years;
- outlaws anti-competitive clauses in contracts, and also practices which may have the effect of discouraging consumers of one EU country from buying their car abroad, such as differences in the manufacturer's remuneration of dealers depending on the sale destination.⁹⁵

The new Block Exemption will run from 1 July 1995 to 30 September 2002, with the Commission promising to draw up an evaluation report by the end of December 2000 at the latest. The industry has already been warned that this will pay particular attention to the issues of price differentials and to the quality of the service being given to the final end users.⁹⁶ However, the renewal does not mean that the argument surrounding selective distribution it is about to cease. Whilst some, including the Commission, feel that the overall balance has successfully been shifted slightly in favour of dealer freedom, others feel that the powerful manufacturer lobby has got its own way almost entirely, and that the modifications amount to a 'tinkering when a radical approach was needed instead'.⁹⁷ Quite apart from this, the fact that the renewal was for another 10-year period, with a review planned after 7 (2002), means that the debate will not have time to die away in the interim. Furthermore, the Commission's more general exemptions covering retailing, franchising, etc. are also due to expire at the end of 1997; the stance that the Commission is to adopt towards vertical restraints in general will emerge over the next couple of years, and will certainly condition how the car industry is viewed in the run-up to 2002. The Block Exemption forms an important backdrop to this research, as its stipulations influence not

⁹⁵ Financial Times, 22/06/95; ACEA, 1995; various ACEA and ICDP sources

⁹⁶ EC Regulation 1475/95, Article 11, published in the Official Journal No. L 145/25, 29/06/1995

⁹⁷ Financial Times, 30/05/95

only the way the distribution chain between manufacturer and customer is organised, but also the nature of the relations between the different elements of the chain.

2-6 CONCLUSION

This chapter has reviewed a wide range of literature covering the global nature of the modern car industry, the importance of the current critical interest in its post-factory sphere of operations and the European legislative environment within which it operates.

It has found an industry dominated by manufacturers operating on a multinational level, particularly within the main car trading triad formed by Europe, Japan and the USA. In a situation of growing competition in this global marketplace, these companies are faced with the task of optimising all elements of their corporate and affiliate structures and activities.

Recently, critical attention has turned to vehicle distribution and customer-facing activities in the search for competitive advantage, at the same time as competitive pressures are forcing a parallel rethinking of activities and structures in this area of the distribution chain; national sales companies, dealers and other chain actors.

Within Europe, these developments are occurring against the backdrop of continued attempts being made to establish a true single market between European Union member states in a territory still displaying a plethora of local tastes, requirements and regulations.

Chapter 3 now goes on to detail how many of the changes underway throughout the industry are being driven by an emergent business paradigm relating initially to production organisation, and now to distribution organisation as well; the twin concepts of lean production and lean distribution, an examination of which forms the focal point of this research.

CHAPTER 3

LITERATURE REVIEW: THE LEAN REVOLUTION

"English engineers will soon produce far better engines and carriages than anything that our Continental neighbours have yet seen. "

John Henry Knight, *Notes on Motor Carriages*, 1896,
quoted in *The Motor Industry of Britain Centenary
Book*, published by the SMMT, 1996

3-1 INTRODUCTION

This chapter discusses the most dominant strand of recent debate in the car industry, namely that concerning the changing organisation and methodology of car production, in particular the paradigm shift from the 'Fordist' principles of mass production to the so-called 'lean production' scheme pioneered by the Japanese manufacturers in the period after the Second World War (Altshuler, A. et al, 1985). The principles of lean production and their gradual implementation across the industry are covered, before the second half of the chapter moves on to consider the most recent development, namely the application of this lean thinking to the post-factory area of the industry. It is these efforts to define and to achieve lean distribution in the car industry which form the centrepiece of this research.

3-2 THE LEAN PRODUCTION REVOLUTION

3-2-1 THE LOGIC OF LEAN PRODUCTION

Traditionally, the vast majority of studies into the car industry have been contained within the framework of applied economics and the theory of the firm (Williams, K. et al, 1994). These have concentrated on the economics of production, the factory and its assembly processes as the key to measuring industry fortunes, selecting either specific companies (Williams, K., 1987; Mair, A., 1994), markets (Rhys, D., 1972; Shimokawa, K., 1994) or a more worldwide perspective (Maxcy, G., 1981), and were usually essentially descriptive in nature. As the levels of internationalisation in the industry have risen since the Second World War, so attention has become increasingly drawn to the search for means to compare the performances of the different companies and trading regions, with the most common measure being either those of factory productivity, the striving to reduce costs

whilst improving performance (Abernathy, W., 1978; Schonberger, 1982; Hall, 1983) or trade figures between markets and regions (Hocking, R., 1980; Owen, N., 1983). More recently, thanks partly to the dominant role the industry now plays in the economies of the developed world, and particularly due to the severe economic circumstances of the 1970s, discourse on the industry grew more mainstream as it became adopted into managerial disciplines, and as the car manufacturers started to throw off their traditional veils of secrecy and to team up with universities, business schools and other consultancies in the search for successful strategies for the future.

The entire industry, and not to mention those observing it, received a severe jolt around the end of the 1960s, and especially in the immediate aftermath of the 1973 oil crisis, when it became apparent that the Japanese car makers, at one time the laughing stock of their Western counterparts, had become a very considerable force to be reckoned with. The 'Big Three' American car makers realised that their catastrophic loss of sales in the US market in favour of imported Japanese 'compacts' was no short term blip in their fortunes due to particular circumstances, but rather the emergence of a dominant new force in the industry (Altshuler, A. et al, 1985). Critical attention quickly turned Eastwards in an attempt to explain the Japanese economic phenomenon, to demystify the rumours that the Japanese car industry functioned in a completely different way to its Western counterparts.

By far the most influential work in this respect has been that produced as part of the Massachusetts Institute of Technology's 'International Motor Vehicle Programme', a research project that itself emerged out of a highly successful book, "*The Future of the Automobile*" (Altshuler, A. et al, 1985). Since its launch in 1984, the project has grown to achieve global coverage, has spawned a worldwide best-seller, "*The Machine that Changed the World*" (Womack, J., Jones, D. and Roos, D., 1990), and has encouraged the development of numerous related research projects, of which the International Car Distribution Programme (ICDP) is one.

The IMVP, and not to mention the many other authors investigating the area, combined history and contemporary research by focusing their attention on the so-called 'Toyota Production System' put in place in the company of the same name by two of its engineers, Eiji Toyoda and Taiichi Ohno, in the decade following the Second World War (Wulff, H., 1994; Lamming, R., 1993; Womack, J., Jones, D. and Roos, D., 1990). Japan's fledgling industry prior to the war had been based upon assembly plants set up there by Ford and General Motors, and also on a copying by Japanese engineers of American mass production principles gleaned during visits to the giant Highland Park and Rouge complexes in Detroit (Shimokawa, K., 1994). The crushing defeat suffered in 1945, however, forced the whole

of the Japanese economy to start again from scratch, and high priority was given to the development of an autonomous car industry. To this end, a policy was developed by the Ministry of International Trade and Industry (MITI) which forbade all kinds of foreign direct investment in the car industry, and which also encouraged the 12 car-producing firms to coordinate their model ranges in order to achieve economies of scale, although the latter was ultimately thwarted by each firm's desire to produce a full range of products itself (Lamming, R., 1993; Shimokawa, K., 1994). However, numerous structural obstacles faced the companies, like Toyota, which held such ambitions:

- *"The domestic market was tiny and demanded a wide range of vehicles;*
- *The native Japanese workforce ... was no longer willing to be treated as a variable cost or as interchangeable parts;*
- *The war-ravaged Japanese economy was starved for capital and foreign exchange, meaning that massive purchases of the latest Western production technology were quite impossible;*
- *The outside world was full of huge motor vehicle producers who were anxious to establish operations in Japan and ready to defend their established markets against Japanese exports."*¹

Toyota's young engineers realised that, in such a situation, a copying of American mass production was no longer enough, and that its techniques were fundamentally unsuited to the concept of range and model differentiation that looked set to dominate the industry and its markets. This thinking paved the way for the development of the pioneering Toyota Production System, to be refined and codified by the IMVP under the title of 'lean production' (Womack, J., Jones, D. and Roos, D., 1990; Lamming, R., 1993).

Two immediate characteristics emerged during this period. Firstly, inventory levels were reduced significantly in a burst during the late 1960s and early 1970s, especially those controlled by the suppliers of Toyota (Lieberman, M., Demeester, L. and Rivas, R., 1995). Indeed, on average, Japanese suppliers cut their work-in-progress inventories by a bigger margin than the manufacturers (Lieberman, M., Demeester, L. and Rivas, R., 1995; Lieberman, M. and Demeester, L., 1995). These reductions in inventory levels exposed defects in the manufacturing processes and forced companies to work to eliminate these sources of production variability (Lieberman, M., 1995).

Secondly, these suppliers were 'quasi-internalised' by their manufacturers into semi-

¹ Womack, J., Jones, D. and Roos, D., 1990: p49-50, summarised in Lamming, R., 1993: p17

exclusive *keiretsu* partnership groupings with cross-shareholdings, involvement in the product planning process and long-term supply commitments (Helper, S. and Hochfelder, D., 1995).

It was as a result of the IMVP's investigation of these particular aspects of the Japanese car industry that the lean paradigm emerged. According to Jones, the term 'lean production' was coined to describe the logic behind this management system that had proved particularly successful for the Japanese industry (Jones, D., 1995). It referred to the way in which the production system developed by Toyota and Ohno apparently used the bare minimum of all productive inputs; space, labour and materials, when compared to mass production. Lamming (Lamming, R., 1993) uses a boxing analogy of reducing body fat to reach fighting weight.

*"The mass-producer uses narrowly skilled professionals to design products made by unskilled or semiskilled workers tending expensive, single-purpose machines. These churn out standardised products in very high volume. Because the machinery costs so much and is so intolerant of disruption, the mass-producer adds many buffers - extra supplies, extra workers, and extra space - to assure smooth production. Because changing over to a new product costs even more, the mass-producer keeps standard designs in production for as long as possible. The result: the consumer gets lower costs but at the expense of variety and by means of work methods that most employees find boring and dispiriting. The lean producer, by contrast, combines the advantages of craft and mass production, while avoiding the high cost of the former and the rigidity of the latter. Toward this end, lean producers employ teams of multiskilled workers at all levels of the organisation and use highly flexible, increasingly automated machines to produce volumes of products in enormous variety. Lean production is 'lean' because it uses less of everything compared with mass-production - half the human effort in the factory, half the manufacturing space, half the investment in tools, half the engineering hours to develop a new product in half the time. Also, it requires keeping far less than half the needed inventory on site, results in many fewer defects, and produces a greater and ever growing variety of products."*²

Lamming splits the concept of lean production into three constituent elements; a new production paradigm, a corporate strategy model (referring to the global nature of the industry and its markets, which has already been considered in Chapter 2) and an integration model (Lamming, R., 1993).

The production paradigm, referred to in the quotation given above, considers concrete methods such as:

- Zero stocks and just-in-time delivery systems for components ('*kanban*'), meaning that buffer stocks of bought componentry within the factory and alongside the production line can be significantly reduced or removed altogether, saving both money and space and allowing more flexible production planning and quicker change-overs;
- Small batch production. Traditional manufacturing thought was that it was cheaper to make long runs of an item rather than small batches. Evidence from Japanese industry has shown that this is not the case, with increased precision and attention to removing faults meaning better quality and less waste (Jones, D., 1995).
- Tight control of processes and constant improvement through the removal of task demarcations and the empowering of workers ('*kaizen*'). This can only be achieved by bringing all skills in the organisation together, and by returning responsibility as far down the organisation as possible (Jones, D., 1995).

"JIT's³ approach is commonly pictured as a travelling boat (the value-adding process) on a river (the production site). JIT's philosophy is to lower the water level (inventory or time-slack waste) until the boat hits a rock (bottleneck in the process like a capacity or quality constraint). Then take away the rock and lower the water level until it hits another rock. Continue the sequence until the bottom of the river is without rocks and perfectly smooth so that no water is required any more. Now most people think ... that it is impossible to move the ship without water. It is this attitude that leaves Porsche needing help from Toyota."⁴

A wide body of literature has grown up dealing either with the theory behind such methods,

³ 'Just-In-Time'

⁴ Car Magazine, June 1996

or with the effects that their permeation is having or will have on other regions or companies (National Consumer Council, 1990; Assemblée Nationale, 1992, Bricnet, F., and Mangolte, P-A., 1990; Jacot, H., 1990).

*"Lean production organisations achieve much greater productivity, quality and flexibility than traditional mass production methods. The key to a lean operation is an integrated and uninterrupted work flow, exposing redundant activities and eliminating buffer stocks."*⁵

The effects of these measures were quantified by the IMVP in the form of a highly-publicised benchmarking operation which assessed the performance gap, in terms of productivity and other indicators, between manufacturers of the three 'triad' markets, with the 'lean' Japanese manufacturers leading on every score (Womack, J., Jones, D., and Roos, D., 1990).

Figure 3-1

ASSEMBLY PLANT PRODUCTIVITY AND QUALITY, VOLUME PRODUCERS, 1989⁶

	Average productivity (hours/vehicle)	Defects per 100 cars traceable to the assembly plant (cars sold in the US only)
Japanese-owned plants in Japan	16.80	52.10
Japanese-owned plants in North America (including joint ventures)	20.90	54.70
American-owned plants in North America	24.90	78.40
American- and Japanese-owned plants in Europe	35.30	
European-owned plants in Europe	35.3*	76.4**
Plants in newly industrialising countries (Mexico, Brazil, Taiwan and Korea)	41.00	72.30
* Productivity levels at the 13 plants visited varied between 22.8 and 55.7 hours/vehicle.		
**Quality levels for the 5 producers sampled varied between 63.9 and 123.8 defects/100 vehicles.		

⁵ ICDP, 1993(b): p.D.1.1

⁶ Womack, J., Jones, D. and Roos, D., 1990: p85-6

Overall then, the benefits of these lean methods were agreed to include increased flexibility, faster product development and higher quality, at lower cost, with less human effort, needing less space, inventory and investment (Maxton, G. and Wormald, J., 1994); a highly attractive recipe for the rest of the global industry to aim for.

Figure 3-2

SOME INGREDIENTS OF LEAN PRODUCTION AS MENTIONED IN THE LITERATURE

- | | |
|--|------------------------------------|
| • Just-in-Time | • Continuous improvement |
| • Zero buffer stocks | • Quick set-up times |
| • Building quality in | • Standardised work |
| • Maximum delegation to workers directly involved | • Preventative maintenance |
| • Small lot production | • Localised control systems |
| • Teamworking | • Partnership sourcing |
| • Simultaneous engineering | |

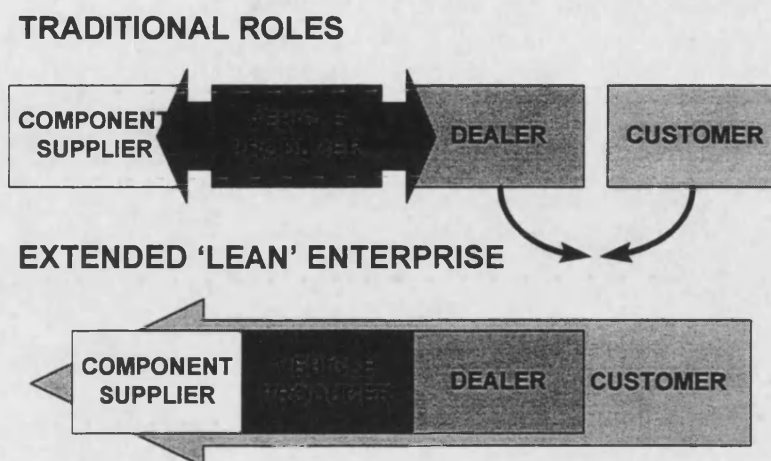
Leaving the corporate strategy model aside for a moment, the third element of the so-called 'lean revolution', the integration model, has also received considerable attention, centred around aspects of the Toyota Production System such as integrated design and development processes involving staff from all areas and levels of the company, vertically-tiered layers of suppliers becoming the fully-fledged partners of the manufacturers, and 'keiretsu' family groupings of companies with cross-shareholdings and mutual assistance mechanisms. A wide body of literature has considered the implications of the increased status of component suppliers in the productive process for the nature of the relationship between assembler, subsidiaries and external suppliers (Lamming, R., 1993; Odaka, K. et al, 1988; Shimokawa, K., 1994), including the replacement of the traditional vertically-integrated system of autonomous manufacturers and dependent suppliers by networks of partnerships with infinitely variable power relationships (Richter, F-J. and Wakuta, Y.,

1993; Banville, E. de and Chanaron, J-J., 1991). Others have predicted a rationalisation in the number of component producers in each of the triad markets (Ruigrok, W. and Van Tulder, R., 1991), or have considered the suitability of promoting 'keiretsu' groupings in the European Union as a backdoor form of Industrial Policy that would encourage working together to improve competitiveness (Banville, E. de and Chanaron, J-J., 1991). Finally, some works, including "*The Machine that Changed the World*", have started to explore the future beyond lean production, suggesting that, given the continued progress in electronics and advanced materials, specialist suppliers will increasingly become responsible for coordinating the lower levels of the supply chain and for producing complete 'component modules' which the manufacturer merely has to drop into the car (Womack, J., Jones, D., and Roos, D., 1990). Traditional manufacturing operations conducted by the car producer will be replaced by assembly tasks (Banville, E. de and Chanaron, J-J., 1991), a concept which, taken to its logical extension, leads to discussions of the 'virtual factory' or the 'virtual company', under which the car producer acts merely as a supply coordinator and facilitator, coordinating the inputs from the various partner operations (Meyer, A de, 1992) and affixing the badge of the 'umbrella organisation' to the bonnet of the final product.

*"Upstream of car assemblers, lean principles require new methods of working with suppliers, involving a close, shared destiny relationship from new product development right through to supply."*⁷

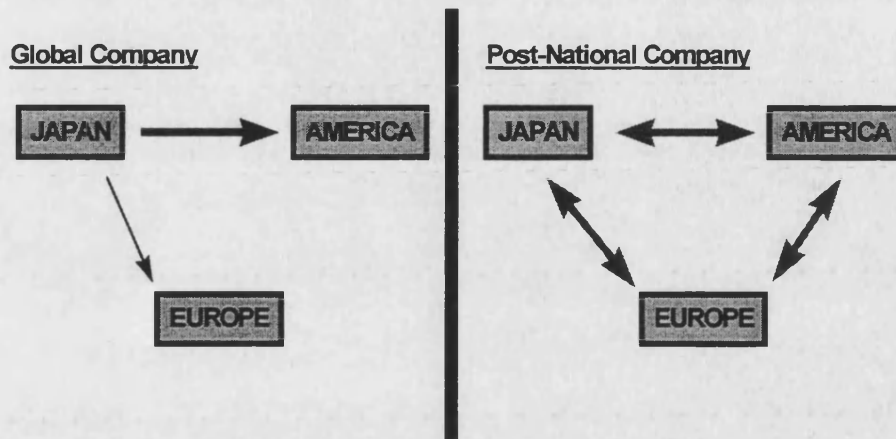
This lean logic demands different ways of looking at what organisations do and how they relate to the customer (Jones, D., 1995). The traditional manufacturing operation divided specialist tasks into functions and departments with little or no link to the outside world. The lean system starts with the customer, for whom it is totally irrelevant how many organisations and transactions were involved in making the car. What matters to the consumer is the cumulative sum of all the activities which add value to the product and its support and the cost at which this is delivered (Jones, D., 1995).

Figure 3-3

WHO DRIVES THE SYSTEM?⁸

An ideal lean system would therefore involve an uninterrupted flow of activities adding value to the product, with all non-contributing elements removed. Such a system would be organised around key processes irrespective of functional or corporate boundaries, and would be driven by customer orders and not stock (Jones, D., 1995). This notion of the extended enterprise would apply wherever the manufacturer located its production facilities; they would form lean-style relationships with suppliers and other actors (either indigenous or joining them from elsewhere) in that market area. This lean approach complements the emerging global nature of the industry as discussed in Chapter 2, which has seen the major players move to locate dedicated production facilities in as many of the major trading regions as is practical; these facilities not only produce tailored products for that region, but where appropriate they can also be called on to export them to the other regions, including back to the homeland. This 'multiregional' approach is also observable in microcosm at the European level, with many manufacturers operating an integrated network of production facilities located throughout the Union.

Figure 3-4

GLOBAL MANUFACTURING TRENDS⁹

This chapter can only skim the surface of the enormous body of literature now devoted to the techniques and implications of these Japanese-inspired production methods. However, it is safe to conclude from the above that this debate, and in particular the IMVP-defined concept of lean production has infiltrated not only all areas of the car industry, but has also seen its buzzwords become an accepted part of business worldwide. Both of the above concepts, namely the paradigm shift from mass to lean production and the breakdown of the vertical dependency structures between different industry actors have profound implications for the post-factory area. Transforming the factory was the first stage; now the task is to establish lean distribution across Europe, which no one manufacturer has yet achieved (Jones, D., 1995; Maxton, G. and Wormald, J., 1994).

*"Lean production is not just about production, it also includes design and development, distribution and sales, suppliers and customers."*¹⁰

So, the following table summarises the historical development of lean thought from the emergence of the Toyota Production System in the 1950s, through its refinement and measurement at the hands of the IMVP, to its widespread recognition as a management

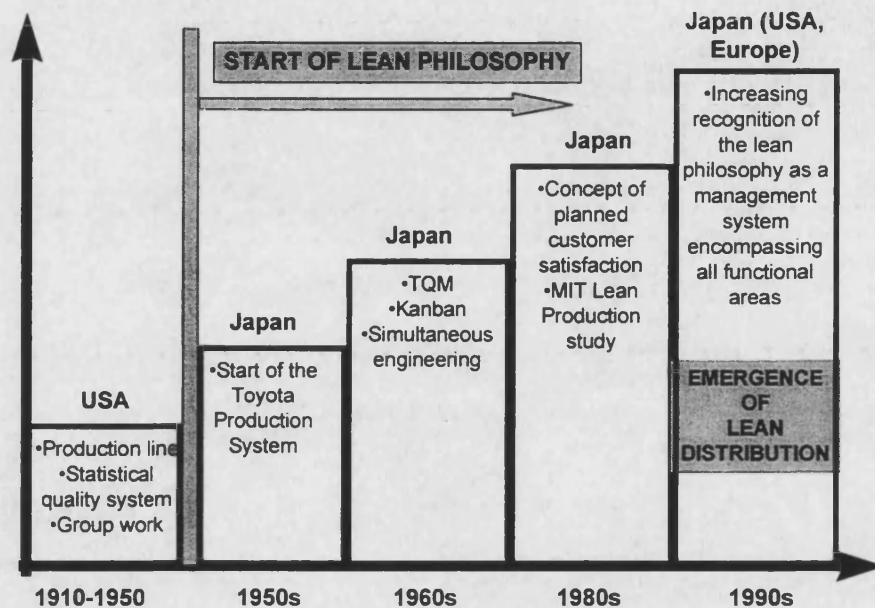
⁹ Adapted from Womack, J., Jones, D. and Roos, D., 1990: p.206

¹⁰ Peter Wickens, Director of Personnel and Information Systems, Nissan Motor Manufacturing (UK) Ltd.

system and the emergence of the new paradigm of lean distribution, to be discussed in detail in the second half of this chapter.

Figure 3-5

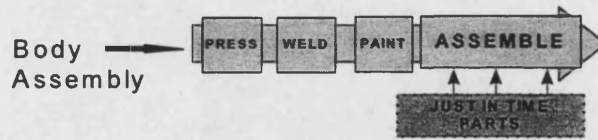
THE DEVELOPMENT OF LEAN PHILOSOPHY¹¹



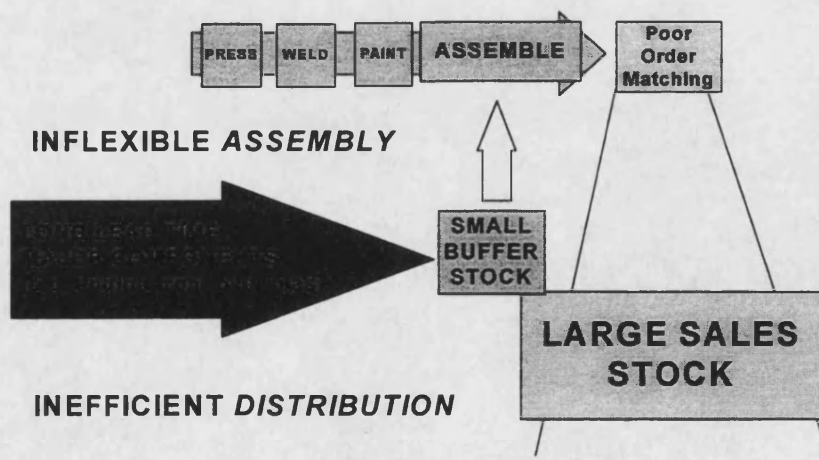
3-2-2 STUDIES IN THE IMPLEMENTATION OF LEAN PRODUCTION

Part of ICDP's work analysed the implementation of lean thinking in the European industry (International Car Distribution Programme, 1995 (b) to (f)). The following figure shows lean production at its most simplistic.

¹¹ Adapted from Seeba, H-G. in Hünérberg, R., Heise, G. and Hoffmeister, M., 1995: p521

*Figure 3-6***BASIC LEAN PRODUCTION**

However, in reality, it is necessary to examine the entire value chain of which the production stage is part, and here it is clear that even the most advanced of the European manufacturers have generally only partially achieved 'leanness' in their chains as their suppliers are still producing large batches of components on long lead times. Sometimes this is because of factors such as the distance between the supplier and the factory, particularly in the case of major components such as engines coming from overseas.

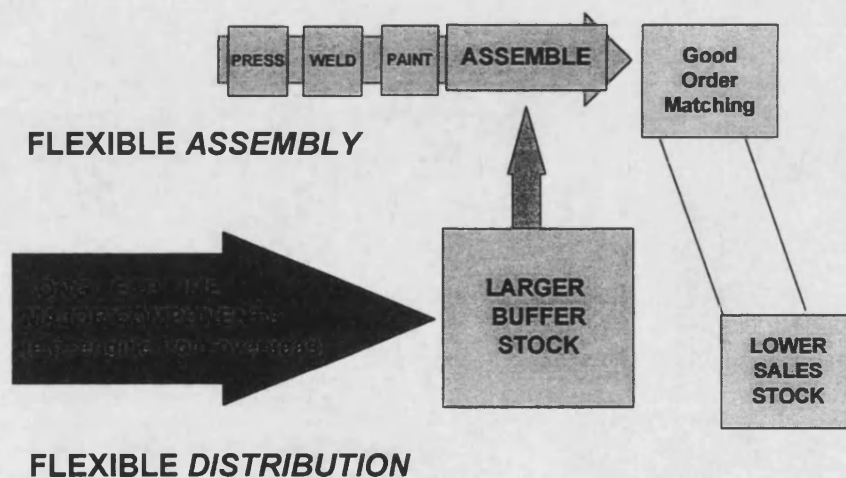
*Figure 3-7***IMPERFECT LEAN PRODUCTION (1)**

As shall be discussed in the next section, this imperfect production stage is usually matched by inefficiency in the distribution stage, as the chain is driven by the needs of the factory and the speed at which it must run to keep the supplies flowing. This results, as shall be seen, in large volumes of unsold stock being produced, for which buyers then have to be found by the dealers.

Looking from the perspective of the whole system, it is apparent that certain modifications could be made which would improve the functioning of the chain. In the short term, this may involve sacrificing the aim of having absolutely zero stocks in the factory so as to give the production line more flexibility to match orders. This would dramatically improve the post-factory stock situation.

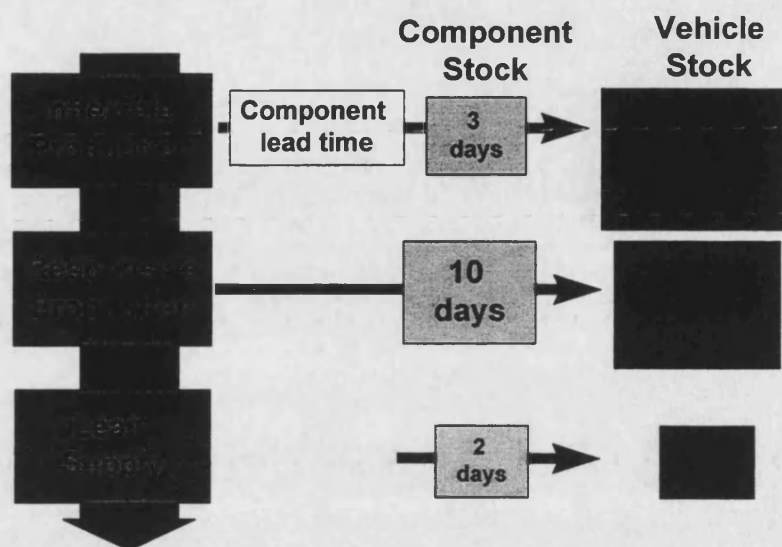
Figure 3-8

IMPERFECT LEAN PRODUCTION (2)



As shall be shown, however, these are only incremental steps on the path to a fully lean system. Many authors believe that the lean distribution system outlined in the next section will provide the final link in the chain, and will also help the remaining supplier and factory stages to become fully lean as well by allowing order flows up through the chain and product flows back down through the chain to be matched as efficiently as possible.

Figure 3-9

BALANCED EVOLUTION¹²

Generally, however, whilst increasing numbers of authors are starting to write about the lean production phenomenon,¹³ some borrowing the concepts and applying their own labels, as mentioned in section 3-2-3 below, and others place the current thinking within the historical context of the development of production methods (Shiomi, H. and Wada, K. (eds.), 1995), the vast majority of implementation studies applying the notion of lean production have, until recently, been carried out by researchers associated with the IMVP programme where the paradigm was nurtured. For instance, MIT's Professor Cusumano highlighted a number of practical problems associated with the development of lean methods in Japan (Cusumano, M., 1994). He pointed out that the growth in Just-in-Time component supply was causing increased traffic problems on the already-crowded Japanese roads, that the industry was facing a shortage of blue-collar workers (due to an ageing workforce whose younger elements were increasingly unwilling to conduct manual tasks), that the proliferation of model variations possible under a lean system was leading to a large number of small, infrequent orders that were difficult for factories to manage, and that the high value of the yen was causing a shortage of available funds for new model development. Whilst not questioning the basic tenets of lean thinking, the work concluded

¹² ICDP European New Car Supply and Stocking System Presentation

¹³ Such as, for example, Sachwald, F., 1994; Maxton, G. and Wormald, J., 1994; Hünerberg, R., Heise, G. and Hoffmeister, M., 1995

that a more flexible approach to its implementation was desirable to take account of local economic conditions. This view has been backed up in a number of other works, such as Katayama and Bennett (Katayama, H. and Bennett, D., 1996), which have reevaluated the Japanese production system in the light of the country's recent economic downturn and the ensuing fluctuations in demand for finished products.

Other examples of the more recent proliferation of studies into the implementation of lean production include Sohal (Sohal, A., 1996), who looked at the successful adoption of lean methods (including JIT, *kanban*, cross-functional new product development teams, etc.) by a component manufacturer in Australia, leading to the firm growing despite the poor economic context; Winfield and Kerrin (Winfield, I. And Kerrin, M., 1996) showed how the lean practices operated by Toyota at its UK factory near Derby were being adopted by other firms, both Toyota suppliers and others, in the same region; and Levy (Levy, D., 1997), who analysed the obstacles to the achievement of a global production and distribution system, such as long order and delivery lead times and the problems of international communication in issues such as new product design, quality control and production scheduling. Whilst lean production methods cannot offer a miracle cure to issues such as these, it can help mitigate their effects by reducing the number of defects, reducing change orders and stabilising the supply chain.

3-2-3 CRITICS OF THE LEAN MODEL

This is not to suggest that the lean philosophy itself has been accepted uncritically by all industry commentators. Indeed, a small yet distinct body of literature has emerged challenging both the basic thinking and the findings of the IMVP's and others' work. This is particularly true of the measures such as plant productivity cited above;¹⁴ these figures, and the methodology behind them, have sparked a fierce debate, and a degree of opposition, particularly from authors who dispute the rigour with which the research was carried out, and who also question the omission of other variables such as stock turns, labour costs, and even data available in company accounts (Williams, K. et al, 1994; Williams, K. et al 1992). The latter work concludes that Toyota's phenomenal success, and also that of Henry Ford with his Highland Park complex, was the result of their being fortunate beneficiaries of favourable circumstances rather than being due to any inherent

¹⁴

See Figure 3-1

superiority of a newly-introduced production paradigm.

Sandberg et al (Sandberg, A. et al, 1995) concentrate their criticism on the IMVP's alleged neglect of the social and worker welfare aspects of car production. In this respect, they argue, lean production is not far removed from Taylorism in that it involves short, repetitive job cycles and standardised, detailed work procedures.

“Lean production can never be the ultimate goal and form for human productive activity. Some ‘fat’ is needed to make the workplace a decent place for human activity, a place where you can unfold as a human being.”¹⁵

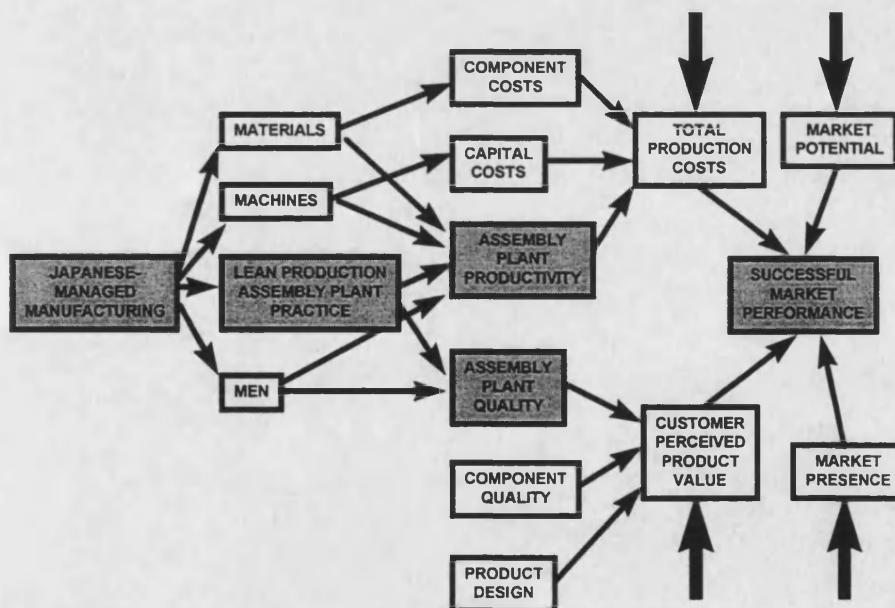
They argue that it is impossible for a company to achieve true social responsibility in the harsh cost-cutting environment of lean production, which in turn passes a heavy social burden on to the public sector. They also point the ironical situation in Japan, where supposed Just-In-Time producers are now starting to stockpile components because the country's road congestion is making it impossible for suppliers to deliver on time (Sandberg, A., 1995). Overall, they maintain that the lean production paradigm represents a rather simplistic view of the industry and, as the following two figures illustrate, it neglects many of the aspects of the production system which are integral to its correct and successful functioning.

¹⁵Sandberg, A., 1995: p.ix

Figure 3-10

SANDBERG ET AL'S CRITIQUE OF LEAN PRODUCTION (1)¹⁶

Figure 3-11

SANDBERG ET AL'S CRITIQUE OF LEAN PRODUCTION (2)¹⁷

¹⁶ Jonsson, B., in Sandberg, A., 1995: p368

¹⁷ Jonsson, B., in Sandberg, A., 1995: p380

Sandberg et al's argument is illustrated by through the case study of Volvo's Uddevalla plant in Sweden, some details of which are summarised here because it represented a very interesting experiment in factory organisation and, more significantly for this research, in distribution chain organisation very much along the lines of the Swedish 'social model'.

- Volvo's pioneering Uddevalla plant was opened in 1989 and closed only 4 years later following company-wide cut-backs. Recently, it has reopened to produce niche vehicles for the Volvo/TWR Group combine. Sandberg et al describe in detail how the plant operated, and how its 'human-centred' philosophy fitted in with a long Scandinavian tradition of job redesign.
- The Uddevalla system replaced the traditional hierarchies and serial flow of cars through the plant with a organisation of work groups assembling cars in parallel. Each group worked autonomously, using a prestructured flow of assemblies and components. No intermediate buffers were needed, as all cars were 'assembly active'. Less tooling was needed as expensive items could be shared between groups. Less technical support was needed for the groups once they had grown familiar with all their tasks. Work could be scheduled more flexibly, with shorter lead times.
- The approach shared with lean production the aims of customer orientation, quick delivery and worker involvement and learning (Sandberg, A., 1995), but unlike "*The Machine that Changed the World*" did not neglect the employee welfare and societal aspects of car-making.
- In terms of productivity, according to the IMVP scale, the plant had overtaken the other European luxury car producers but still lagged behind the Japanese at the time of its closure. However, Sandberg et al claim that this underestimated the plant's performance, and also that it could not really be measured according to the IMVP system because of the lack of standardised tasks in the assembly processes conducted there.
- But it was for its post-factory arrangements that the Uddevalla plant was particularly interesting. From October 1992 onwards, the plant only produced sold customer orders, with a 4 week delivery lead time, as opposed to the Swedish average of 2 months. Production mix was scheduled 7 weeks ahead of build. In November 1992, the system was extended to include all European markets (for the models produced at Uddevalla) and the response from distributors was

overwhelming. No delivery time was promised for scheduled stock build, but delivery of customer orders was promised in 4 weeks.

- Uddevalla's parallel system also enabled the work groups to fit accessories in a third of the time, more cheaply and more accurately than the dealers, during the assembly process. This also pleased customers no end, as they were often unhappy to see their new car cut up by a dealer in order for the tow bar to be fitted.

So, whilst the debate over the productive aspects of the Uddevalla experience rumble on in the literature, potentially the most successful innovations employed there correspond very closely to some of the elements of lean distribution now being introduced across the board by the European industry, as shall be discussed in the next section

Many other authors have pursued similar 'lean' ideas to the IMVP, but using different frameworks and different terminology. Piore and Sabel, for instance, identify what they call a revival of a craft form of production based on 'flexible specialisation', a strategy of permanent innovation based on flexible, multi-use equipment and skilled workers,¹⁸ a line of thinking followed by Morales, whose 'flexible production' signifies the organisation of production and markets through the joint actions of companies and governments to establish a suitable breeding ground for innovation.¹⁹

Nevertheless, the IMVP's work in this area has continued, and their conclusions have been by far the most influential of all those to have commented on the industry. Since they were first published, the results such as those cited above have stirred several manufacturers into adopting many of the lean principles that the authors of "*The Machine that Changed the World*" espoused, meaning that more recent, but as yet unpublished measures are now reflecting a much reduced performance gap between the best and the worst performers, at least in the main triad markets.²⁰

¹⁸ Piore, M. and Sabel, C., 1984: p17

¹⁹ Morales, R., 1994: p6

²⁰ Graves, A.: "*Global Trends in World Class Manufacturing: Training and Education for Lean Production*", Inaugural lecture given at the University of Bath, 20/06/95

3-3 THE EMERGENCE OF LEAN DISTRIBUTION

The following sections discuss the major themes to have emerged so far from the literature examining the application of this lean thinking to the post-factory area of the car industry. These include:

- A fundamental shift away from the traditional 'stock-push' mechanism or distribution chain organisation towards a system 'pulled' by the customer;
- Attempts to apply this thinking to physical supply and stocking systems;
- The need for manufacturers to rethink the number of model and specification variants they offer;
- The emergence of partnerships between manufacturers and retailers;
- The need to think in terms of the whole distribution 'chain' rather than just separate elements of it;
- The implications of this thinking for marketing strategies (including the examples of Saturn and Volvo).

3-3-1 FROM 'STOCK-PUSH' TO 'CUSTOMER-PULL'

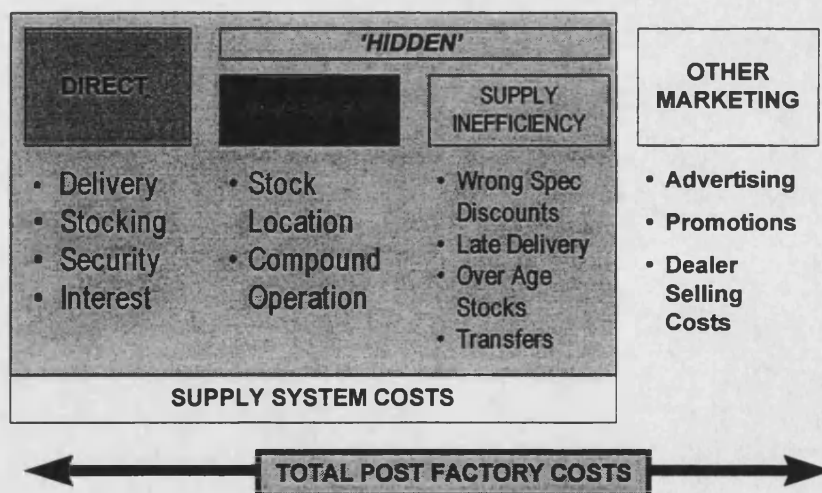
As mentioned earlier, it is apparent that areas such as manufacturing and purchasing, the 'low-hanging fruit' have been the first to benefit from the lean revolution, whereas distribution has remained largely unchanged for 75 years. However, the pressure for change was accelerated in the early 1990s by the global recession causing a drop in sales volumes, by production overcapacity in all the major producing regions and the challenge from Japanese and Korean makes and finally by excessive intra-brand competition (Hünerberg, R., Heise, G. and Hoffmeister, M., 1995). Recently, then, a certain amount of critical attention has started to focus on this post-factory area where the adoption of a good strategy will be the key to survival (Bellenger, L., 1986(a); Calori, R. and Lawrence, P., 1991), and in particular on how lean thinking developed in the context of manufacturing can be applied to the post-factory network to achieve these aims.

*"The first manufacturer to implement a 'lean distribution' solution will command a major strategic advantage in the marketplace."*²¹

However, although lean terminology has now become the buzzwords of the industry, literature which seeks to define the key concepts of the lean distribution philosophy and to debate its implementation is still noticeably thin. The majority that has appeared so far has concentrated on aspects of the physical supply process (ICDP, 1995(b) to(f)) and on evaluating the costs and inefficiencies tied up in traditional and lean distribution systems. For instance, Hünérberg et al comment that, if lean production contributed the notions of team working, quality circles and constant improvement to the overall lean philosophy, then lean distribution adds an awareness of the costs involved in the distribution chain (Hünérberg, R., Heise, G. and Hoffmeister, M., 1995). From their perspective, the implementation of lean distribution therefore involves moving activities in the distribution chain to where they can most efficiently be conducted and cutting cost out of unproductive structures.

Figure 3-12

SUPPLY SYSTEM COSTS²²



²¹ J.D. Power III, in "The Revolution in Automotive Retailing: A Perspective of the New Millenia", 1996., Agoura Hills, California

²² ICDP European New Car Supply and Stocking System Presentation

As is clear from this figure, the largest single element of *muda*²³ in the system is the continued presence of stock at all levels of the distribution chain. 60% of the costs of the traditional stock-push system are estimated to be related to sales volume, i.e. stock. A further 20% is accounted for by management and supply inefficiency costs, and 11% is due to discounts given to customers in order to shift wrongly-specified vehicles, late deliveries and over-age stock (ICDP sources). ICDP research has demonstrated that reducing stocking costs by taking stock out of the system²⁴ would mean £1 billion in interest savings per year, and a further £0.5 billion in direct and management costs. Reduced discounts for 'wrong' specifications and overage cars would amount to a further £1 billion per year. The total potential saving could therefore be £2.5 billion per year. Furthermore, moving from this to a fully lean supply system could save the European industry \$15 billion in released working capital and \$3.8 billion in annual costs (ICDP, 1993(b); 1995 (b)-(f)). This would also help to offset the greater marketing costs being encountered by manufacturers and National Distributors as they struggle to develop brand image in an ever more competitive marketplace.

Thus it is the recognition of these potential savings which has forced commentators such as Gadde and Mattson below to comment that

*"the changes in distribution to come will be of such a magnitude that they afterwards might be regarded as the fourth transformation of the industry."*²⁵

One key element of the lean philosophy is that the whole system is driven by the customer (Womack, J., Jones, D., and Roos, D., 1990; Womack, J. and Jones, D., 1996). For the car distribution process, this initially means ensuring that they get the car they want in the right place, at the right time and at the right price. However, this cannot be achieved under the traditional 'stock-push' distribution systems which currently dominate the sector (ICDP, 1993(b); 1995 (b)-(f)). Customers are persuaded to accept a car that the dealer has in stock, even if it is not what they really wanted, usually at the cost to the dealer of a discount. If they insist on a customer order, then the traditional system is not usually geared up to deliver it in an acceptable time. So, lean distribution seeks to overcome this by running the chain from the customer end to ensure that their needs are met. The customer interface is therefore critical for a lean system (Jones, D., 1995), and it is the dealers' job to maintain a

²³ The concept of *muda*, the Japanese for 'waste' is put forward as a central pillar of the lean philosophy by Womack and Jones in their book "*Lean Thinking*". *Muda* therefore applies to all activities in the value chain which are wasteful and inefficient, i.e. which do not add definite value for the final consumers at the end of the chain.

²⁴ Reducing the total stock required, dealer costs, storage and transport costs

²⁵ Gadde, L-E. and Mattsson, L-G., 1989: p18

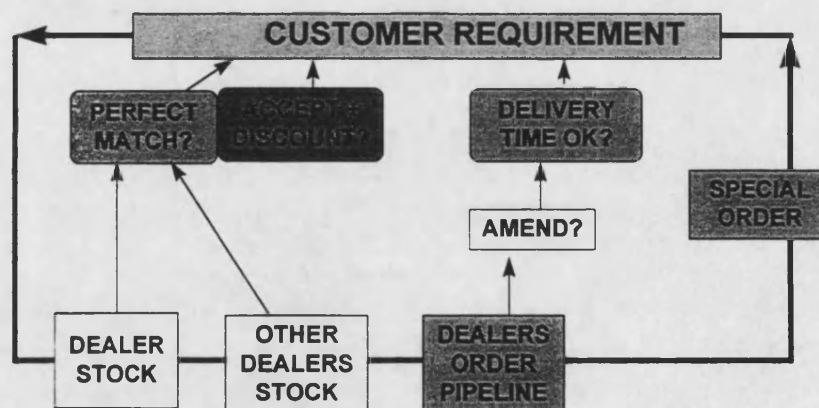
close and continuing relationship with the customer; they thereby become the front end of the lean value chain linking manufacturer to customer (Hünerberg, R., Heise, G. and Hoffmeister, M., 1995).

3-3-2 IMPLEMENTING LEAN SUPPLY AND STOCKING SYSTEMS

As was mentioned above, attempts to install this lean value chain have thus far been dominated by the need to optimise the single largest source of *muda*, the supply and stocking process. Under the traditional system, as summarised below, the vast majority of sales are met out of dealer stock, either at the dealer where the sale was concluded or, in many cases, by the costly practice of transferring the car from another dealer.

Figure 3-13

MATCHING CUSTOMER REQUIREMENTS (1)²⁶

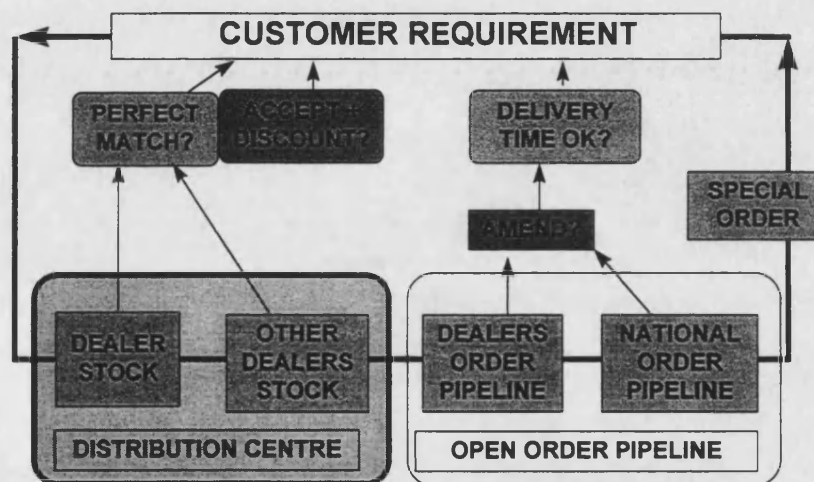


In the first stages of a leaner supply process put forward by ICDP and others (ICDP,

1993(b); 1995 (b)-(f); Womack, J., Jones, D., and Roos, D., 1990), stock is removed from the dealers and held at suitably located distribution centres, from where it can be dispatched to individual dealers only when they have a definite sale. The natural corollary to this, on the right hand side of the figure below, is the open order pipeline, under which dealers with a particular customer order in mind can scan the stock-holding centres and the forward production and shipping programmes from their computer terminals to find, order or reserve the particular car that their customer wants.

Figure 3-14

MATCHING CUSTOMER REQUIREMENTS (2)²⁷



Traditionally, manufacturing plants would always prefer to have their products 'sold', that is to say committed to move out of the factory gates and onto a dealer or distributor before they were built, thus maintaining a certain level of stock in the marketplace to meet demand and keeping the factory output as stable as possible so that equipment, supplies and labour could be matched to plant capacity (Womack, J., Jones, D., and Roos, D., 1990).

"One thing is for certain, having agreed our factory production, then we know that that is the number everything has to add up to!"

ICDP manufacturer NSC interview

As was illustrated in the first half of this chapter, the logic of lean production has superseded much of this thinking, and the effects of those areas of the industry where it has been implemented are easy to observe. For example, in 1994, the European car market overall had a finished vehicle stock objective of 50 days, compared with 3 days for factory component stock levels, which have already been through the lean revolution. This finished vehicle stock level makes the whole distribution process very inefficient, and undermines the marketing efforts of the manufacturers (ICDP source). So entrenched was the stock-push mentality that ICDP research found manufacturers admitting that they would not trust their dealers to sell the cars if they did not give them regular stock assignments that they were committed to 'get rid of' (ICDP, 1993(b); 1995 (b)-(f)).

"If we don't present the dealer with a supply plan, and ask him for a forecast, then he won't see the rationale and we won't get the commitment."

Manufacturer NSC interview

Regular stock orders from dealers, defined for the dealers in advance by their manufacturer or national sales company would therefore ensure that production was moved on from the factory to the marketplace. The result was a lack of trust between manufacturers, and a generally adversarial relationship based on conflicting objectives and motivations on both sides. The supply system task of lean distribution, according to work conducted by ICDP and others, is therefore to match the upstream flow of orders with the downstream flow of products before the latter leave the pipeline and become stock. This demands, amongst other things, more accurate forecasting, a different relationship with customers, and the ability to respond late and quickly to demands for specification changes (Jones, D., 1995); in other words a more flexible and responsive system than was available with stock-push.

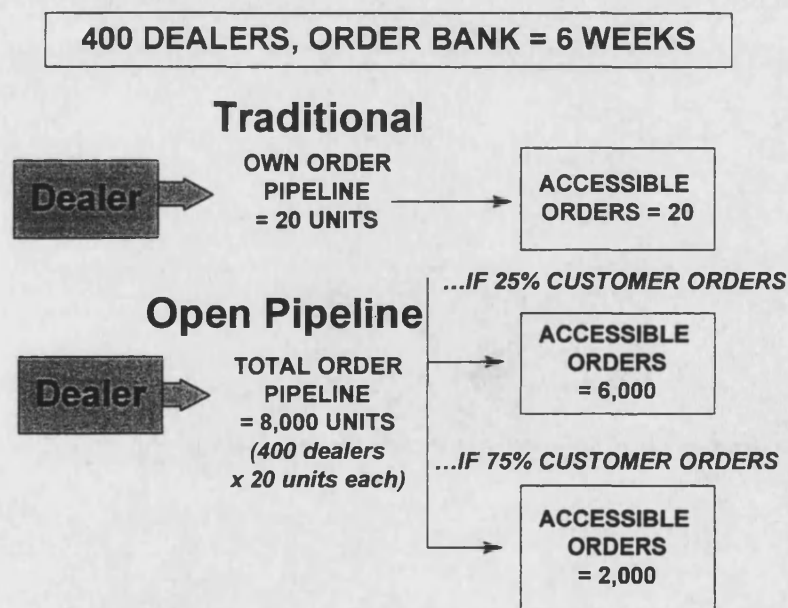
Traditionally, the industry has also operated to long order lead times dictated by the needs of the factory. Production programmes and market allocations were usually inflexible, generally being reviewed monthly and fixed 2 months ahead of build. However, with lean thinking catching hold, research is reporting that some makes are now reviewing market allocations of their products weekly and the best performers are conducting market allocations 14 days ahead of build. Actual order lead times are typically 40 to 50 days for the European makes, compared to 90 for the Japanese (for products being shipped from Japan). However, the best performance of 15 days had been achieved by at least one volume and one specialist manufacturer by 1994 (ICDP source). As for actual delivery times, these can vary widely, even within a market, from 2 to 28 days. Under a lean

system, however, the customer focus means that delivering the car accurately, i.e. on the day (and at the time) that was promised is more important than whether the car takes 5 or 7 days to arrive (Womack, J., Jones, D., and Roos, D., 1990).

As was mentioned earlier, this achieving this time reduction and accuracy increase involves making the production and supply pipeline open, or transparent to the dealers and national sales companies, so that they can see precisely what cars are where in the system. Dealers can then reserve a car if it fits their customer's needs, or raise a customer order if no match is found. ICDP research produced the following scenario to illustrate how the dealer's chances of finding the car his customer wants increases in an open system.

Figure 3-15

TRADITIONAL VERSUS OPEN PIPELINES²⁸



Currently, ICDP estimates that only 15% of makes in the European market have moved to a variation of this open ordering model; the remaining 85% are still using closed systems, under which dealers can only amend or prioritise their own allocated orders (ICDP, 1993(b); 1995 (b)-(f)).

However, extrapolating these ideas and their rate of implementation, ICDP has estimated that, by 2005, those manufacturers with a lean supply system will be able to (ICDP,

1995(f)):

- deliver the specification of the customer's choice to 95% of customers within 15 days anywhere in Europe;
- run a totally stockless system, except at peak times;
- satisfy 90% of customers from factory build-to-order.

From a critical point of view, this notion of lean distribution, and particularly what appears to be its most tangible immediate application, namely the development of lean supply and stocking systems, is in a comparable yet even less advanced situation than that highlighted for lean production at the end of section 3-2-2. Whilst increasing numbers of authors comment that distribution chains are starting to experience the same form of revolution which has swept through the production process, and not before time (Hünerberg, R., Hese, G. and Hoffmeister, M. (eds.), 1995; Maxton, G. and Wormald, J., 1994), actual attempts to codify and quantify the phenomenon, its potential impact on and its degree of implementation within the car industry have been left to specialised research projects such as ICDP and IMVP, and to professional industry consultants. As shall be seen below, other aspects of the lean distribution paradigm have become more established in the literature, as they also constitute developments which are firmly underway in the industry.

3-3-3 CHANGES TO MODEL AND SPECIFICATION VARIANTS

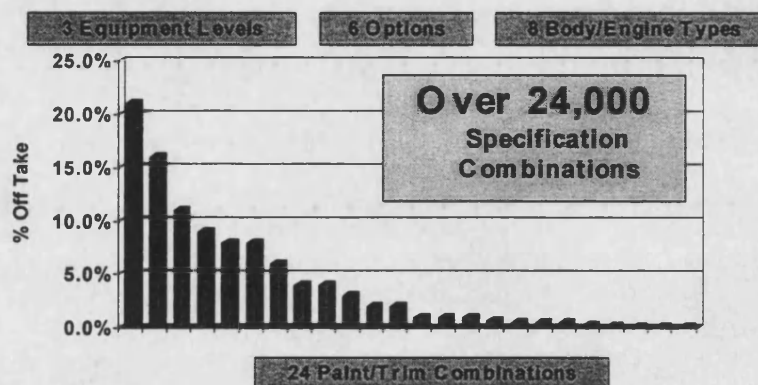
One further barrier to this however is the multiplicity of trim and specification variants offered for each model. A typical medium-sized car from a European manufacturer may have upwards of 40,000 different colour, trim and specification combinations, and quite often this figure runs into millions. As the typical small dealer can only ever stock 5 or 6 of these variants at any one time, it is clear that the customers' chances of getting the car that they want from stock is very slim indeed.

Currently, only 40% of customers receive the exact specification that they initially wanted. It is estimated that this would increase to 77% with only minimal application of lean principles and the removal of stock (ICDP source). As can be seen from the following graph, only a few of the specification combinations will usually account for a significant

majority of sales, with many of the more unusual combinations only serving to satisfy a tiny minority of customers, usually at a disproportionate cost to the system. This over-proliferation of specifications, and the accompanying cost and logistical problems are all targets for rationalisation under a lean system (Womack, J., Jones, D., and Roos, D., 1990; Womack, J. and Jones, D., 1996).

Figure 3-16

TYPICAL PRODUCT SPECIFICATIONS²⁹



Reducing the number of specification variants offered would also, according to the lean proponents, enable the distribution chain to improve its forecasting of what customers will actually want to buy, as compared with the traditional system where the unusual variants also figure as successful sales (and so continue to be built), but only because a discount was given (Jones, D., 1995).

3-3-4 THE DEVELOPMENT OF MANUFACTURER - RETAILER PARTNERSHIPS

All these predicted developments would have a significant impact on the dealer and their relationship to the rest of the chain. Many have commented that the strengthening of the ties between manufacturer and dealer will inevitably mean that fewer dealers will be

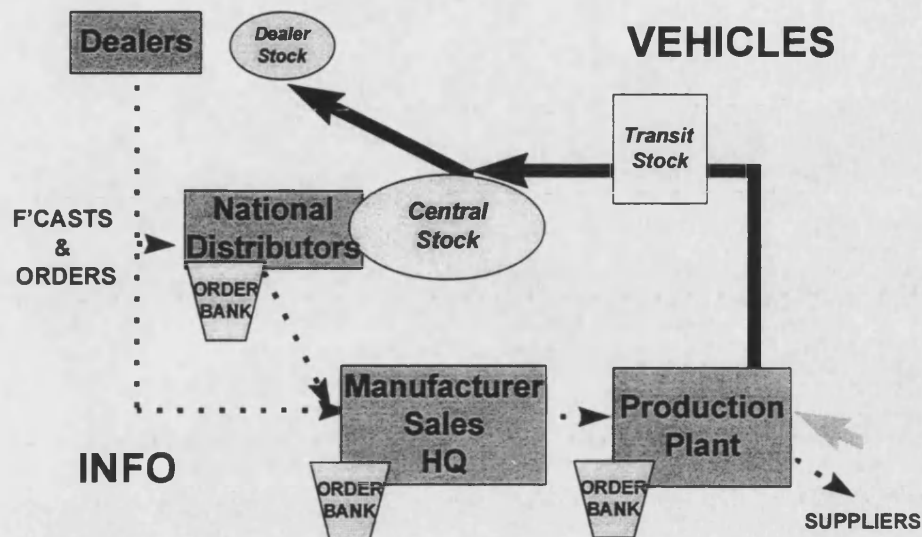
needed, and those that do remain will have to be capable of managing this new, more tightly integrated relationship and the 'shared destiny' (Diez, W., 1995; ICDP, 1995(a); Shioji, H., 1995; Hünerberg, R., Hese, G. and Hoffmeister, M. (eds.), 1995).

As far as the average dealer is concerned, removing stock means that the manufacturer is removing his insurance policy against sales fluctuations, thus forcing him to share his destiny with others in the chain (Jones, D., 1995). Conversely, the manufacturer must now trust the dealer to meet his sales targets without the pressure of stock-push hanging over his back, and the dealer must trust the manufacturer to make available the cars that his customers want to buy. Such a change would not be possible with the current arms-length relationship that exists between manufacturer and dealer (Jones, D., 1995, ICDP, 1995(a)), but only with the formation of new partnerships not only between manufacturer and dealer, but also between all the actors in the chain (Maxton, G. and Wormald, J., 1994).

3-3-5 ADOPTING THE PERSPECTIVE OF THE WHOLE DISTRIBUTION CHAIN

One of the central emerging features of a lean system is that it cannot be applied piecemeal, but instead will ultimately involve the entire value chain from suppliers to factory to distributors, dealers and consumers. Because this chain is highly complex and fragmented in the car industry, so the task of applying lean thinking will not be an easy one (Womack, P., Jones, D. and Roos, D., 1990; ICDP, 1993(b)). As the following graphic illustrates, the system currently has to accommodate order banks and forecasting mechanisms at national distributor, sales department and factory level, to manage the inputs of many suppliers, and then to organise the movement of product stocks back to the national level and ultimately to the dealers.

Figure 3-17

A HIGHLY COMPLEX CHAIN³⁰

In summary, according to the International Motor Vehicle Programme, 'lean distribution' treats the car owner as part of the post-factory chain, as the latter's tastes and preferences can be registered and fed directly into the process of developing new models that the consumer wants. As is the case for the factory itself, the dealers and distributors hold only the bare minimum of stock, and instead it is the ordering of a specific model by the customer which triggers its production back at the factory (Womack, P., Jones, D. and Roos, D., 1990).

Removing stock from the system is therefore only possible if the supply chain is managed as a single entity involving all the different actors as partners. Factories, suppliers and distributors would have to shorten their lead times, dealers would no longer be allocated cars for stock, most orders would be customer orders, assembled on a reliable build schedule with the order status visible to the dealer and customer throughout the system; in other words the chain becomes single entity within the extended lean enterprise (ICDP, 1995 (b) to (f)). Under such a system, optimising the performance of the whole chain will take precedence over optimising individual parts of it under local management control. For instance, this will mean that manufacturers will need the production of certain critical components sufficiently flexible to be able to match customer requirements and therefore

reduce the stock of finished vehicles. Dealers will, as mentioned above, have to learn to live without stock and trust the system to get the car their customer wants to them within a reasonable time; they will have to learn to 'sell to customers' rather than 'buying from manufacturers' (ICDP, 1995(a)).

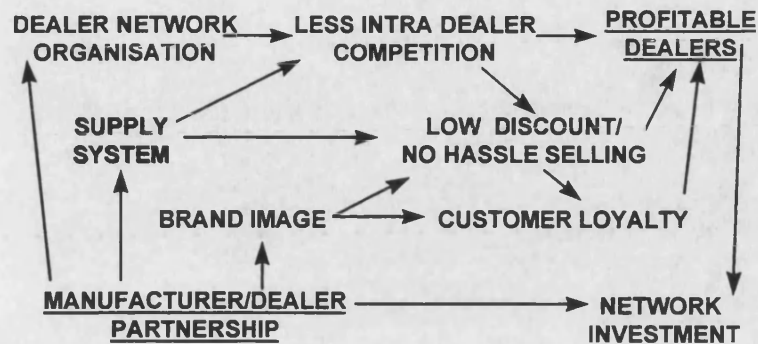
3-3-6 IMPLICATIONS FOR MARKETING STRATEGIES

It has also been predicted that, under a stockless system, dealers would need to conduct less outlet-level marketing in order to shift ageing stock. Attention could therefore be turned to more national or regional customer retention programmes and advance order generation. Manufacturers would therefore gain more control over promotional activity than they have had in the past, but they would be more obliged to take their dealers' views into account (ICDP, 1993(b)). Dealers would also be rewarded on the standards they met, rather than on how many cars they sold.

Some authors, particularly those citing the Saturn example given below, also argue that a lean system will be able to offer completely fixed price selling, with non-negotiable trade-in prices and no discounts offered on new car purchases (Hünerberg, R., Heise, G. and Hoffmeister, M. (eds.), 1995; Koenders, J. and Chu, W., 1993). Others argue that fixed price selling will prove very difficult to get established and to police across a network simply because of the number of trade-ins conducted by dealers. Some dealers will inevitably be more cost-effective than others, and so if the no-haggle price is set at the network average, it will be in their interest, and they will be able to undercut it. Also, in an industry where supply is ultimately constrained by manufacturing considerations and demand is highly volatile, being able to move prices is the best means of balancing supply and demand and maximising profits (ICDP, 1996(o)). Overall then, the predicted marketing benefits of moving to the lean system outlined can be summarised as follows.

Figure 3-18

THE LEAN MARKETING SYSTEM³¹



3-3-6-1 THE SATURN EXAMPLE

*"Saturn's success has become somewhat of a modern-day auto fable ... the car's mystique as GM's answer to the formidable competition from Japan has made Saturn a new symbol of American competitiveness."*³²

When it comes to illustrating how elements of this lean thinking have been implemented in the marketplace, one example is employed over and over again; Saturn. It is worth examining the Saturn case in some detail, as it has been heralded by many as a model for the future of the industry.

Saturn's history dates back to 1981, the year General Motors in America posted disastrous financial losses. The project was the brainchild of Roger Smith, then GM chairman, who

³¹ ICDP European New Car Supply and Stocking System Presentation

³² Associated Press, July 1992, quoted in Power, J., 1992: p8

conceived the new Saturn brand as a means of breaking the mould of manufacturing and retailing in the American industry, and as a direct response to the challenge of the Japanese manufacturers. It was a clean start at creating a new brand of car, including all aspects of production and distribution, from scratch. Key to the new philosophy of the company was the belief that it would only be successful if it met the needs of its customers, its staff (known as Saturn 'members') its suppliers, its dealers and its neighbours.

"...To meet our suppliers' and dealers' needs:

- *We will strive to create real partnerships with them;*
- *We will be open and fair in our dealings, reflecting trust, respect and their importance to Saturn;*
- *We want dealers and suppliers to feel ownership in Saturn's mission and philosophy as their own..."³³*

Particular characteristics of the Saturn distribution approach³⁴ that have been discussed in the literature (Hünerberg, R., Hese, G. and Hoffmeister, M. (eds.), 1995; Koenders, J. and Chu, W., 1993; Rubinstein, S., Bennett, M. and Kochan, T., 1994; Power, J., 1992) include:

- relatively few dealers with large, exclusive territories, and consequently very little intra-brand competition As of January 1993, Saturn had 174 retailers (operating 232 outlets) covering the whole of the United States. This is a tiny amount compared with the market average size of 1219 dealers for a US dealer network (2734 for the 'Big 3'), 632 in Japan and 389 in Germany.³⁵;
- a 'hubs and satellites' approach by these dealers, with the main dealer 'hub' supporting 'satellite' operations and facilities across the dealer's territory;
- the dealers, who are appointed as a result of a very rigorous selection procedure, all display the same appearance and layout, and no brand name identification of their own, according to specially-designed architectural plans approved by Saturn;
- dealers are considered part of the extended Saturn enterprise, and are empowered and consulted on all major decisions. For instance, when problems arise, such as a period of over-supply, Saturn and its dealers work together to reach a solution;
- retail decision-making is conducted by the Franchise Operations Team, consisting of 8 Saturn staff and 8 dealer representatives; this takes decisions regarding warranties,

³³ Extract from the Saturn philosophy, quoted by David Beck, then Managing Director of Lex Retail Group

³⁴ Many elements of lean thinking were also incorporated into Saturn's greenfield production facilities, including JIT component supply and a refusal to accept traditional union arrangements

³⁵ Source: Automotive News

retail margins, dealer agreements, the selection and allocation of territories, the allocation of advertising funds, product specifications and vehicle allocations;

- the company does not conduct discounted fleet sales;
- the dealers do not have any compulsory vehicle stock allocations, and order on line with a system named POMS (Production Order Management System). Order amendments are possible 6-10 days before delivery;
- a limited model range, with a much smaller range of trim and specification options than is usual in the US market;
- consumers can browse through the cars without being put under pressure by the salaried sales consultants. Thereafter, the purchase experience is as hassle-free as possible, with transparent pricing and no 'haggling'.

*"If one word can summarise the Saturn culture, it is partnership."*³⁶

From a standing start, it is undeniable that the Saturn brand has been a major success. In the union-dominated American car industry, Saturn represented a unique partnership between management and labour, it applied new technology in design and manufacturing and a new approach to selling (Koenders, J. and Chu, W., 1993). The market area approach demonstrated a manufacturer actually showing a concern for the health and profitability of its dealers, along with a desire to reduce the intra-brand competition that is such a feature of an aggressive stock-push system. As a result, dealers are very profitable and satisfied, and this in turn has led to satisfied customers.

According to Power (Power, J., 1992), the Saturn approach was well illustrated in February 1991 when the car was subject to a recall to fix faulty seat recliners. Many Saturn dealer staff drove out to customers' homes at their own expense to carry out the necessary repairs. In another incident, a Saturn dealer actually paid to repave some customers' driveways after a fault with their car's cooling systems had leaked coolant. This customer focused approach seems more than adequately to compensate for the product itself having a reputation for being competent rather than revolutionary.³⁷

Saturn is now more or less universally accepted by the rest of the industry as the first car company to embrace and to attempt to implement lean thinking throughout its value chain (Hünerberg, R., Heise, G. and Hoffmeister, M., 1995).

"The automotive distribution system in this country (USA), beset on all

³⁶

Saturn President Richard LeFauve in Hünerberg, R., Heise, G. and Hoffmeister, M., 1995, p529

³⁷

Source: Automotive News

sides by harsh new competitive realities, under critical and sometimes cynical scrutiny by an increasingly powerful customer base, and economically squeezed everywhere, is not going to survive in its present form. ... Saturn is ... a living laboratory for most if not all of the strategies and concepts that have arisen to meet this extraordinary challenge."³⁸

However, so far, there have been very few attempts by other manufacturers to imitate the Saturn approach. The main reason for this is the entrenched nature of the current system throughout the world; it is simply not possible for manufacturers to abandon existing factories, distribution arrangements and dealers overnight. And, even if this were possible, the costs of doing so would be prohibitive. For instance, it has been estimated that if a major UK brand (such as Vauxhall for example) copied the Saturn approach exactly, it would only need 4 dealers to cover the whole of the UK market, compared to the 500-odd it has today ...³⁹ Consequently, this 'greenfield' start achieved by Saturn is simply not an option for the European manufacturers, and would appear to be restricted to the new arrivals in the marketplace, such as the Koreans. Nevertheless, as shall be demonstrated throughout this thesis, many manufacturers have studied the Saturn approach, and are adopting elements of its and other lean ideas into their distribution chains wherever circumstances make it possible (Hünerberg, R., Heise, G. and Hoffmeister, M., 1995).

3-3-6-2 THE VOLVO EXAMPLE

A further example to appear in the literature of a manufacturer who successfully banished stock from its distribution chain is Volvo with its Uddevalla plant already mentioned in the context of lean production. Sandberg (Sandberg, A., 1995) relates how, from October 1992 onwards, the plant only produced customer orders, with a 4 week delivery lead time, as opposed to the Swedish average of 2 months. Production mix was scheduled 7 weeks ahead of build. In November 1992, the system was extended to include all European markets (for the models produced at Uddevalla that is) and the response from distributors was overwhelming. No delivery time was promised for scheduled stock build, but the factory committed to getting customer orders to the dealer in 4 weeks.

³⁸ Power, J., 1992: p56

³⁹ ICDP Source

As result of this, Swedish dealers found that they no longer needed to offer discounts, as the customers were able to get the exact specification of car they wanted and it would arrive in a reasonable period of time.

“The change to customer order assembly with short delivery times represented cost savings of a magnitude unparalleled by any programme directed at reducing assembly hours, the favourite object of media interest and managerial effort.”⁴⁰

3-4 CONCLUSION

This chapter has presented the lean paradigm as it is being applied in the literature to the production and distribution phases of the industry. The concepts of lean production are found to have become widely accepted both in the critical academic literature and in the car industry itself, which has been implementing them on a wholesale basis for many years in the production phase of operations.

Both academic and industry attention is now turning to the post-factory area of the industry and to the emergence of a lean distribution paradigm. Studies in the area have postulated, and are starting to observe, a move away from ‘stock-push’ towards ‘customer-pull’ distribution systems, which has major implications for the way distribution networks will be organised in the future, and which looks likely to signify a large improvement in both the efficiency of the system and its effectiveness in providing the levels of service customers increasingly demand.

The most immediate area of impact for this thinking has been thought to be the physical distribution aspects of the sector, the vehicle supply and stocking systems linking manufacturers, national distributors and dealers. However, emerging studies have shown that the application of lean thinking in the distribution sector is likely to impact on many other areas as well, including the model range and specification policies of manufacturers, the relationships dealers have to manufacturers as well as the activities they conduct, and

⁴⁰ Sandberg, A., 1995: p112

also the evolution of marketing strategies throughout the distribution chain.

The next chapter distils the discussions contained in this chapter and Chapter 2 into the key questions which defined the research fieldwork. These seek to explore the concept and the implementation of lean distribution as it has been outlined above, where a simple overall definition for lean distribution based on the above might be

getting the right car to the right place at the right time using the least resources and at the least cost, with the 'right car' being the customers' rather than the factory's decision.

Is it possible to identify a clear set of factors which will go to make up the lean distribution paradigm and which, as highlighted above, will impact on the whole range of distribution activities across the chain? And furthermore, will these factors be consistent across the European market, or will other influences lead to a watering down of the 'ideal solution' into a 'mixed and matched' situation dependent on the specificities of manufacturer and market? In which areas will lean distribution be easiest to implement, and where will it be hardest?

CHAPTER 4

RESEARCH QUESTIONS

"Whatever rightly done, however humble, is noble."

Frederick Henry Royce, quoted in The Motor Industry
of Britain Centenary Book, published by the SMMT,
1996

4-1 INTRODUCTION

The aim of this chapter is to outline the specific research questions which emerged from the secondary research phase, and which drove the rest of the study.

4-2 THE RESEARCH CONTEXT

The context which helped to define the research questions and indeed the research design, to be discussed more in the next chapter, emerged from the examination of secondary material looking at the recent fortunes of and future prospects for the industry contained in the previous three chapters, and relates to the car industry itself, including the ways in which it organises its activities, and also to its place within the wider context of the Single European Market.

The preceding literature review section of this work can be summarised into 3 key factors which form the foundations for the research questions, and which are reviewed below. These are:

- the strategic importance of the post-factory area and the inevitability of change;
- the market-based environmental forces for change;
- the forces to implement 'lean thinking' throughout the production and distribution value chain.

4-2-1 THE STRATEGIC IMPORTANCE OF THE POST-FACTORY AREA AND THE INEVITABILITY OF CHANGE

As has become clear from the preceding chapters, the post-factory area is of crucial strategic importance to the future of the industry; as competition in the marketplace continues to intensify, a manufacturer's fortunes will depend more and more not only on the quality and integrity of its core products, but also on the way they are marketed and sold, and on the additional features which accompany them (Banville, E. de and Chanaron, J-J., 1991; Bellenger, L., 1986(a); FIA, 1989; Womack, J., Jones, D., and Roos, D., 1990). Manufacturers will therefore devote more strategic attention to this area, and will introduce changes to their distribution chains with the intention of improving service and, crucially, at cutting costs, is inevitable (Mayes, D., 1991; Gadde, L-E. and Mattsson, L-G., 1989). It is expected, as is detailed below in section 4-2-3, that these changes will be inspired by the emerging paradigm of lean distribution, and will see distribution chains becoming increasingly driven by customer orders from the bottom as opposed to stock pressure from the top. This will have wide-ranging implications for all chain activities, not least of which physical supply and stocking systems, where it has been estimated that the introduction of lean systems alone could save the European industry £2.5 billion per year (ICDP, 1993 (b); 1995 (b)-(f)).

4-2-2 THE MARKET-BASED ENVIRONMENTAL FORCES FOR CHANGE

The strategies that are adopted throughout the distribution chain across Europe will be influenced by a whole range of global, EU- and national-level environmental factors which, in the context of international trade, throw up competing forces either to standardise approaches across markets, or to differentiate them (Banville, E. de and Chanaron, J-J., 1991; Calori, R. and Lawrence, P., 1991; Colchester, N., and Buhan, D., 1990; Gogel, R. and Larréché, J-C., 1989, Halliburton, C. and Hünerberg, R., 1993).

The debate in the literature concerning the interplay of global and local forces has received very wide coverage, both in works looking at the global trading environment (Porter, M.,

1990; Douglas, S. and Wind, Y., 1987; Hamel, G. and Prahalad, C., 1985; Keegan, W., 1989; Levitt, T., 1983; Mair, A. 1994; Ohmae, K., 1985; Sheth, J., 1986; Ruigrok, W. and Van Tulder, R., 1991), and in studies which take as their focus the European market, where the same forces are present, albeit possibly with slightly different names (Assemblée Nationale, 1992; Atamer, T., 1993; Banville, E. de and Chanaron, J-J., 1991; Calori, R. and Lawrence, P., 1991; Colchester, N. and Buchan, D. 1990; Dudley, J. and Martens, H., 1993; Gogel, R. and Larréché, J-C., 1989; Halliburton, C. and Hünerberg, R., 1993; Kapferer, J-N., 1993; Lynch, R., 1992; Mourier, P. and Burgaud, D., 1989; Vandermere, S., 1989(b)).

As not even the most specialised car manufacturers (with the possible exception of some 'kit car' producers) would be able to reach sufficient economies of scale to survive by relying on their home market alone, this global/local dilemma will be relevant for all significant manufacturers present in the European market. This trade-off applies both to the more 'back-office' distribution and logistics activities and to the more 'front-office' areas of marketing and customer contact, and will be assimilated by manufacturers, dealers and other actors according to their individual circumstances. Of particular interest to this research is an examination of these factors with regard to the implementation of lean distribution. Will both the perception and the implementation of lean distribution be influenced by this global/local dilemma, and what are the impediments to its wholesale implementation across the European market?

4-2-3 THE FORCES TO IMPLEMENT 'LEAN THINKING'

The dominant notion in recent literature is one of the post-factory activities of a car manufacturer, including distribution actors and dealers, operating together as one long distribution chain, regardless of whether they are vertically integrated into the manufacturer corporation or independent (Stern, L. and Reve, T., 1980; Bowersox, D. and Morash, E., 1988; Stern, L. and El-Ansary, A., 1982, Andersson, P., 1991, Filser, M., 1992). The chain contains both vertical and horizontal links, each of which will be either directly or indirectly affected by changes that will be introduced at other points.¹

Current lean thinking defines this chain in terms of a series of value-adding processes. In

¹ See Figure 1-2

doing so, it extends the chain to include both the entire production system (removing, wherever possible, the distinction between production and distribution) and, crucially, the customer at the end of the line, in whose terms alone this value can be assessed (Womack, J., Jones, D. and Roos, D., 1990; Womack, J. and Jones, D., 1996).

Books like *“The Machine that Changed the World”* and research programmes such as IMVP and ICDP are seeking to establish this ‘lean philosophy’ throughout the car industry. Many manufacturers have moved to introduce practices associated with lean thinking throughout their supply and production systems over the course of the last decade, and more recently, elements of this thinking have been observed as entering the post-factory distribution chain. Because of the many competitive pressures facing the sector, it is widely believed that further changes associated with lean thinking will be introduced, particularly in the distribution sector, in the near future as manufacturers and other chain actors seek to improve their competitiveness and to ensure their longer term survival in a mature marketplace.

4-3 THE RESEARCH QUESTIONS

Having narrowed down the context of the study, it is possible to pick out three key questions that form the hypotheses of the research. As will be seen in the next chapter, which covers the research design and methodology in detail, the first question relates largely to the first section of the research fieldwork, namely the exploration of the research concepts through surveys and interview programmes, and the second and third questions relate more strongly to the development of the research model dealing with the concepts of lean distribution, and to its validation and testing.

4-3-1 RESEARCH QUESTION 1

The first question which comes out of the literature review is to assess whether the comments and predictions made in the literature concerning lean distribution are accurate. Are the developments that have been associated with the paradigm actually occurring in the European marketplace, or are alternative routes being followed by certain manufacturers or in certain markets? If these lean distribution developments are indeed occurring, this means that it will be possible to identify, to observe and to categorise evolutions and new developments in:

- distribution chain structures and relationships across the European market;
- industry perceptions of and attitudes towards the post-factory sector

which correspond to the philosophies expressed in the literature on lean production and distribution, taking into account the context of the (still imperfect) Single European Market in cars.

4-3-2 RESEARCH QUESTION 2

As has been suggested in the literature,² the emerging paradigm of lean distribution has the potential to impact on many areas and activities in the car distribution chain. Research question 1, above, seeks to pick out these key areas and activities.

However, it is expected, because of a number of factors including the following:

- the hitherto fairly undefined nature of the lean distribution paradigm and its novelty;
- the complex nature of the industry and its distribution chain in particular;
- the presence of many specific environmental factors across the European market and within its companies,

that perceptions of the lean distribution paradigm and rankings of these key areas in terms of their perceived importance to the paradigm will display a significant degree of variation

² See Section 3-3

across a sample of the car industry. As it is predicted above that lean distribution will constitute a variety of distribution chain developments,³ so it is hypothesised here that the industry itself will assign differing priorities to each of them.

By ranking these 'factors' of lean distribution relative to each other according to how central to the notion of lean distribution the industry perceives them to be, it will be possible to define the key elements of what the industry feels to constitute lean distribution.⁴

4-3-3 RESEARCH QUESTION 3

This question moves on to consider the state of implementation of these factors which, it is hypothesised above, go to make up the core of lean distribution.

It is hypothesised that, according to the perceptions of a high-level cross-industry sample, the current and future implementation of these lean distribution factors is and will not continue to be uniform across European, or even global, markets.

As a result of their local needs and conditions, in other words the interplay of global and local forces as mentioned in section 4-2-2, certain markets will be more advanced and face an easier task than others in the implementation of both the overall notion of lean distribution and of these factors individually.

The research will also seek to further the discussion, as reported in Chapter 2, of what these key environmental factors are and how the industry feels they will evolve in the future.

³ Expressed in this research as the 'factors' of lean distribution

⁴ As is explained in Chapter 5, the vast majority of the research fieldwork was constructed around samples of high-level executives from many areas of the European car industry. For reasons of commercial sensitivity and because of the forward-thinking nature of the research, these respondents were not asked to represent their company's interests in their responses, but to give their own personal views on the matters under discussion based on, in the vast majority of cases given their positions, many years of experience of the workings of the industry. Consequently, this research does not seek to draw firm conclusions which compare either specific manufacturer or categories of manufacturer policies or strategies. Instead, it seeks to measure elite-level attitudes regarding the emergence of lean distribution. Given that most of the respondents occupied highly influential positions within their organisations, it can be expected that their opinions will go on to play a major role in the definition of policy and strategy in the areas which were researched.

4-4 IMPLICATIONS OF THE RESEARCH

As well as presenting the findings of the work which address these three specific questions, the research will, based on the knowledge base built up throughout the secondary and primary research phases⁵, also examine some of the likely implications of these findings for the future of the industry. For instance, looking at the first and second research questions, what conclusions can be drawn regarding the sector's perceptions of itself, lean thinking and its future? How might these attitudes be reconciled with the many other challenges emerging from the market environment (such as pollution and congestion issues for example). Looking at the third research question, if this picture of diversity is proved to be the case, what are the potential gains and disbenefits for the industry? Some of these issues will be considered in Chapter 10.

4-5 CONCLUSION

This chapter has narrowed down the context that emerged from the preliminary secondary research phase, to be discussed in more detail in the next chapter. It then outlined the three central questions which constitute the hypotheses of the research. In summary these seek, in turn, to:

- verify the existence of predicted lean distribution developments and to categorise these observed developments and attitudes towards the future of the sector and lean distribution in the European market;
- measure the levels of association with and acceptance of these categories across a high-level sample of the European industry;
- measure attitudes towards the implementation of these categories across the various European (and a selection of global) markets and to discuss the environmental background to this implementation.

⁵

See Chapter 5

The research material gathered to address these questions will be presented in Chapters 6 to 8, before the questions are revisited in the research conclusions chapter, Chapter 9.

CHAPTER 5

RESEARCH METHODOLOGY

"In research the horizon recedes as we advance, and is no nearer at sixty than it was at twenty. As the power of endurance weakens with age, the urgency of the pursuit grows more intense ... And research is always incomplete."

Mark Pattison, 1813-84 (English Educationalist) in
Isaac and Casaubon, 1875: Ch.10

5-1 INTRODUCTION

A critical element of any research project is the methodology used to conduct it. The selection of a suitably tailored set of tactics and their rigorous application to the subject matter will condition not only the quality of the insight that the researcher is able to gain into their chosen area, but also the likelihood of the findings being reliable and credible and therefore valuable to others. Bryman considers it vital to use both an appropriate and a fully-considered research method if the resulting study is to demonstrate its validity (Bryman, 1989). For this reason, a section showing the selection the researcher has made from the many different techniques on offer and the reasons for doing so forms an essential part of the presentation of the research.

This chapter will therefore present the various designs and methods considered for this study, and will show how the final methodology design was reached. It opens with a consideration of the nature of research into the car industry, an area which throws up some specific problems for a researcher to overcome. The following section presents the secondary and primary research methods adopted, and situates them within the general framework of academic research. Details of the respondent samples are also given at this point. The chapter ends with a discussion of the possible shortcomings of the selected methods, a treatment of the concepts of triangulation, validity and reliability and an explanation of how the research findings were disseminated to the sections of the industry which had participated.

It is worth pointing out that, whilst a wide body of literature exists covering all the different methodological approaches available to the researcher, it is rare for a researcher to embark on a piece of work having defined precisely from the very outset the techniques to be employed. It is more often the case that the final methodology emerges gradually throughout the course of the study, as the researcher grows more familiar with the area and develops the theories which underpin the work; the most appropriate tactics will often 'suggest themselves'. In this way, the research theory and methodology emerge and grow together, demonstrating that it is impossible to separate the two at any stage of the research process (Bulmer, M., 1984), and also reminding the researcher that one of their ultimate goals must be to produce a piece of work that is both individual and unique. Such was the case in this study, which developed a varied portfolio of research methods to suit the constantly emerging and expanding nature of the topic under examination.

*"Be a good craftsman: avoid a rigid set of procedures. Above all, seek to develop and to use the sociological imagination. Avoid fetishism of method and technique. Urge the rehabilitation of the unpretentious intellectual craftsman, and try to become a craftsman yourself. Let every man be his own methodologist."*¹

5-2 RESEARCHING THE CAR INDUSTRY: PERSPECTIVES AND SHORTCOMINGS

Salvadori (Mayes, D., 1991) underlines the weakness of traditional theoretical and empirical tools for the study of the European automobile industry. Whilst macro-economic measures allow the long term effects of cyclical or structural developments to be gauged over time and through the weight of many examples, he points out that the starting point when looking at the effects on a particular firm's strategy must be the impermanence of its behaviour. With the ensuing analysis based on scenarios, it is therefore hard to establish a formal causal link between the implementation of, say, an EU regulation, and a change in company behaviour. The task of determining whether the factors influencing the evolution of the European car industry and its post-factory operations are due to the workings of the Single Market Programme, or whether they are merely the twists and turns of a global industry is therefore a problematical one.

*"There is no evidence that behaviour would not have changed if the measures had not been taken; equally, there is no evidence that the measures adopted are solely responsible for these changes in behaviour."*²

Bearing this in mind, the task of researching the car industry is made all the more complicated because of its sheer enormity. It proves almost impossible to separate out any

¹ Taylor, S. and Bogdan, R., 1984: p107, quoting Mills, C., 1959: *"The Sociological Imagination"*, Oxford University Press, London: p224

² Mayes, D., 1991: p29

one topic without being obliged to consider all the other factors intertwined with it. For instance, one cannot fully understand the Selective Distribution Agreement operated in the European market without looking at issues such as service packages, spare parts supply, corporate image, differential pricing, the non-existence of a harmonised EU tax regime, parallel imports and attitudes towards Japanese cars produced both within and outside the Union, logistics and product specifications.

Therefore, the complex nature of the subject under discussion, along with the fact that it does not constitute an area where conclusions can be drawn from irrefutable evidence, together demand a careful choice of research instruments in order to build a valid piece of research. The highly secretive nature of the companies under examination, combined with the inescapable fact that, even if this secrecy were not the case, it would still not be possible to collect an exhaustive quantity of data due to the sheer enormity of the task, together force the researcher to accept from the outset these potential pitfalls and to seek to overcome them as far as possible. In this respect, this research largely follows the qualitative axiom outlined below of seeking not to establish formal truths, but to build understanding by offering an illustrative investigation of the subject area, albeit backed up with harder data where appropriate. Given that the aim of the research is to examine a set of constantly evolving phenomena, it is inevitable that ideas, analyses and conclusions that go to make up the research will not necessarily be clear-cut, but will themselves evolve gradually as more evidence comes to light.

Although the key focus of the research was the post-factory area of the European car industry, an examination of the perspectives of as many different actors within the distribution chain as possible was important not just to gain a full picture of the interactions and developments taking place, but also to compare them against each other. This led to the decision to involve dealers, manufacturers and other distribution chain actors in the study, fulfilling the aim of using multiple sources of evidence to bolster the trustworthiness of the work, providing insights both from the perspective of the head of the chain looking down (the manufacturer) and from the bottom looking up (the dealer). As all the various actors in the chain, separated by massive differences in power and status, have very different conceptualisations of the relationship that links them all together, this format allowed these to be compared and contrasted in order to achieve a holistic understanding of the subject area.

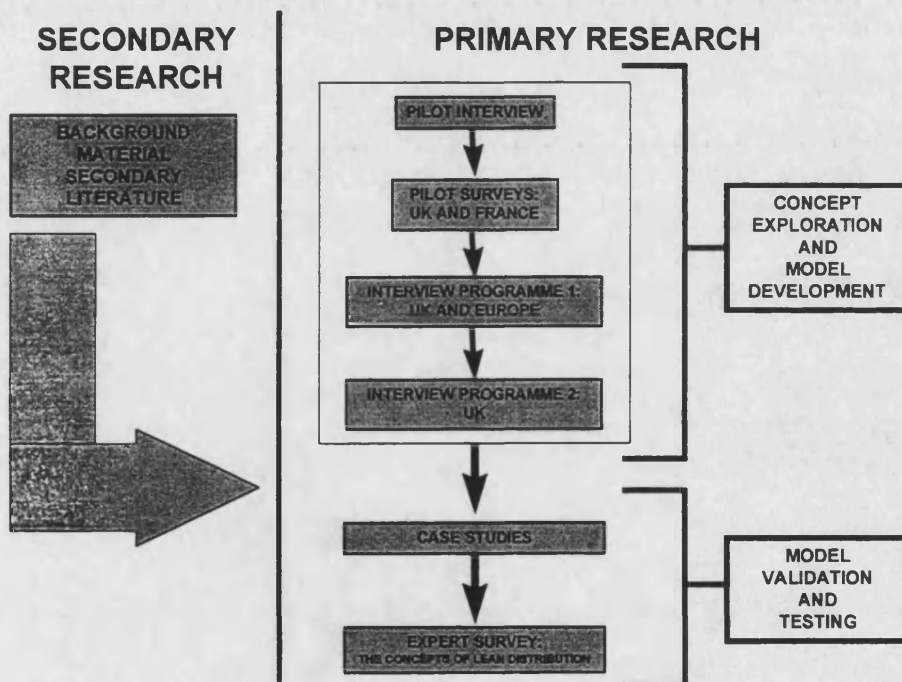
No one research methodology was considered sufficient for a study of this nature. Instead, the research attempted to combine a variety of different methods, and to remain as flexible and responsive to the ever-changing nature of the subject matter as possible.

5-3 RESEARCH METHODOLOGY DESIGN

The following figure illustrates the logic and the process followed by the research, split into secondary and primary research phases.

Figure 5-1

THE RESEARCH PROCESS



The most usual division of research methods is into secondary and primary research (Easterby-Smith, Thorpe and Lowe, 1991). Secondary research entails the examination of existing documentary information and data, usually in the form of company reports, newspaper and journal articles, etc., and allows the researcher to explore the broad context of the area they are researching. As well as informing the research throughout its course, secondary research can also reveal to the researcher the gaps in current knowledge that they can go on to address in their work. Primary research involves the researcher in gathering new and original data and information upon which the research hypotheses can be built and tested, and can be conducted in a number of different ways, including unstructured and structured interviews, focus groups, telephone and postal questionnaires, participant and non-participant observation, etc.

Broadly speaking, these techniques are usually categorised into one or other of the two opposing philosophical schools; the phenomenological or the positivist. Quantitative methodology involves an essentially positivist approach, with the researcher setting out to rationally prove or disprove a set of established hypotheses by systematically collecting and analysing empirical data, from which conclusions can be deduced (Berger, R. and Patchner, M., 1988; Bulmer, M., 1984; Yin, R., 1993). This positivism can be traced back to the thinkers of the late 19th and early 20th Centuries, who strove to explain social phenomena using methods borrowed from the natural sciences (Taylor, S. and Bogdan, R., 1984; Yin, R., 1993). Common tactics in the positivist field included questionnaires and fully-structured interviews.

As opposed to being logical and deductive, the qualitative approach is phenomenological and inductive, and uses a corpus of established research on the relevant subject area as a basis for drawing conclusions relating to the specific focus of attention (Bulmer, M., 1984). Using a qualitative approach, no external structures are imposed on the data as is the case with a quantitative methodology (these structures usually forming part of the hypotheses which the research seeks to test); the structure is instead derived or emerges itself from the data, with the process and the theory being inextricably linked (Glaser, B. and Strauss, A., 1967; Bulmer, M., 1984). Typical methods include unstructured interviews or action/enquiry, and one of the key aspects of the approach is therefore its flexibility. Being inductive by nature, the method aims to develop concepts, insights and especially understanding from patterns identified within the data, as compared to the deductive quantitative approach where data is collected to assess preconceived models or theories (Taylor, S. and Bogdan, R., 1984).

Despite the persistence of doubts in some quarters as to the ultimate validity of qualitative methods when it comes to drawing conclusions, many authors have nevertheless demonstrated that an inductive approach is no less valid than a deductive one. Under the positivist paradigm, if the premises that framed the research are valid, then the conclusions reached must be true and must be the only conclusions possible. Using induction however, many possible conclusions can be reasonably applied to a certain set of premises. The most appropriate outcome usually emerges as a result of a process of negotiation between the researcher and the respondent; since it is the respondents' interpretations of and perspectives on reality that the researcher is trying to reconstruct, their input is an essential part of the analysis procedure (Lincoln, Y. and Guba, E., 1985).

Arguably more important than an allegiance to any one methodological school is ensuring

that the evidence that is presented in the research is substantiated from as many different perspectives as possible (Yin, R., 1987). For this reason, as was mentioned earlier, this study employs a selection of methods from both the quantitative and qualitative approaches, which together aim to ensure the adequate triangulation of the research, a concept to be mentioned in more detail later in this chapter.

5-3-1 SECONDARY RESEARCH

As is illustrated in the above figure, the secondary research phase was conducted by means of a continued parallel examination of secondary literature and background material on the subject of the car industry relating specifically to marketing and distribution issues or more generally to the evolution of the industry as a whole. The data drawn from this literature, which included books, newspaper and journal articles, consultancy and company reports, European Commission papers and conference material, served to help in the formulation of topics and questions for both the interview, case study and survey phases, to fill in some of the background and the context for the issues under consideration that forms an essential part of the emerging picture of the topic, and to provide useful comparisons both with other companies within the sector and with parallel developments in other areas of the European economy. Throughout the course of the study, the researcher also had access to the ongoing work being conducted for the other ICDP projects with which findings could be compared and contrasted.

5-3-2 PRIMARY RESEARCH

The primary research phase of the study can, as illustrated in Figure 5-1, be divided into two halves, firstly concept exploration and model development and secondly model validation and testing.

5-3-2-1 CONCEPT EXPLORATION AND MODEL DEVELOPMENT

Pilot interview

Following the initial phase of the work examining the background to the industry and narrowing the overall focus of the study down to the post-factory distribution chain, a pilot interview was carried out to gauge the extent to which the concepts developed so far were accurate and salient to be pursued in the subsequent work.

The respondent was the then Public Policy Director of the Retail Motor Industry Federation in the UK, the trade body representing the interests of UK vehicle dealers both franchised and independent. This respondent was felt to be appropriate in the light of their in-depth knowledge not only of the dealer sector, but also of manufacturer-related issues and overall industry developments. The meeting took the form of an open-ended discussion session, and lasted two and a half hours.

Pilot questionnaire - UK and France

Following this pilot interview, it was decided to gather an initial body of fairly general industry opinion on the emerging issues of the study, again so as to confirm the emerging conceptual framework of the study. Given the problem at this stage in the research of gaining access to manufacturer respondents, it was felt appropriate to advance the research by targeting the level in the distribution chain most likely to be immediately affected by any change; the dealers.

The overriding problem to be addressed in conducting research into the dealer body is one of scale; the total number of franchised outlets in the European market (including service-only facilities) has been estimated at 121,000, of which 107,000 actually sell cars (International Car Distribution Programme, 1994(a)). This figure was brought down to more manageable proportions through the selection of focus markets. For practical reasons including time and cost limitations, the markets selected for the dealer focus work were limited to two - the UK and France; two of Europe's five major car markets and also countries which display some very different characteristics in terms of car retailing structures and trends.

The easiest means of obtaining both basic facts and figures and also opinions on selected issues from dealers was by means of a postal questionnaire addressed to the dealer principals of a sample of their number. The postal questionnaire is seen as a means of obtaining a significant volume of information relatively easily, and opens up the possibility of drawing inferences about a large group of actors based on the study of a relatively small number of individual actors from within the group (Yin, R., 1984; Taylor, S. and Bogdan, R., 1984). Furthermore, the choice of a postal questionnaire eased the problem that the geographically diffuse nature of the dealer networks might otherwise have caused.

The respondent sample was constructed from a selection of dealers of Renault and PSA (Peugeot-Citroën) vehicles in the UK and France. Despite strong, modern product ranges and competitive standings in the European marketplace, both Renault and PSA remain highly vulnerable to further fluctuations in market fortunes (as indeed do all the European generalist manufacturers), especially as they are both heavily reliant upon the large market shares they enjoy in their home country (43.8%, 41.9% and 45.5% for Renault, Citroën and Peugeot respectively).³ Furthermore, both have adopted very different strategies with regard to the nature and positioning of their products in the European marketplace, with Renault having used the adoption of some of the principles of lean production as a trigger to the development of a strong range of niche products and PSA having trodden a more cautious path, sticking to the traditional market segments (indeed Peugeot and Citroën cars compete directly with each other in many of them). Both have also expressed very different opinions regarding aspects of the Single Market Programme and the liberalising of their sector. Together, they typify all the strategic dilemmas that Europe's car makers will need to face up to and overcome over the course of the next few years, and as such are highly characteristic of their labels as European generalist car producers. Despite their strong cultural heritages, the significant presence both companies enjoy across the European market was seen as adequate to overcome any particular bias that might emerge in the research from their both being of French origin, particularly as the dealers sampled were in the vast majority of cases independent (as opposed to manufacturer-owned) and were also questioned as to their opinions on the wider European car market as well as on their relationship to their particular manufacturer.

The sheer number of dealers representing Renault and PSA in the two selected markets was such that a random sample of their number was the best means of making the pilot survey feasible. For the UK dealer questionnaire, likely to be quicker and less expensive, it was

³ Williams, K. et al, 1994: p169, quoting SMMT, 1992 (Motor Industry of Great Britain, London) figures for the European passenger car market in 1991.

decided to send out 200 questionnaires, 60 each to Renault and Citroën dealers, and 80 to Peugeot dealers in reflection of their greater number in the UK market. As the questionnaire was not intended to be a quantitative one, the number of questionnaires was not tied precisely to the number of dealers. The dealers themselves were selected at random from the alphabetical listings published by the manufacturers and readily available to prospective customers. The questionnaires were accompanied by a covering letter. For the French dealer questionnaire, resource limitations meant that only 70 questionnaires could be sent out; included this time were pre-paid return envelopes, considered essential if dealers were to respond to a questionnaire sent 'cold' from abroad. The breakdown of the questionnaires distributed and the replies received is given below.

Figure 5-2

BREAKDOWN OF UK AND FRENCH PILOT DEALER QUESTIONNAIRES

	UK			France		
Company	Number of dealers	Number of questionnaires distributed	Number of replies received	Number of dealers	Number of questionnaires distributed	Number of replies received
<i>Renault</i>	370	60	8	7274	24	4
<i>Peugeot</i>	401	80	17	4449	23	4
<i>Citroën</i>	244	60	12	4553	23	4

- Dealers include branch, independent and second-tier outlets, but not service-only operations

- Some Peugeot and Citroën dealers may be dual-franchise: in this case they would be counted twice

- Dealer figures correct at the start of 1993 (Source: Harbour Wade, 1993)

Figure 5-3

RESPONSE RATES FOR UK AND FRENCH PILOT DEALER QUESTIONNAIRES

	UK	France	UK and France combined
Renault	13.33%	16.66%	14.28%
Peugeot	21.25%	17.39%	20.4%
Citroën	20%	17.39%	19.27%
Overall	18.5%	17.14%	18.15%

The questions were listed according to a funnel process commencing with broad, general questions regarding their dealership, such as its size and its scope, before leading into more specific matters such as the nature of the relationship between the dealership and the manufacturer, and finishing on the respondent's personal perception of selected issues such as Selective Distribution or the evolution of the distribution chain, including invitations for them to conduct in some 'crystal-ball gazing' and suggest future scenarios. A discussion of the findings is included in Chapter 6.⁴

Interview programme 1: UK and Europe

Following this pilot stage, the primary research turned to the first of two interview programmes involving élite respondents from within the industry. As was outlined in the Introduction, this was conducted within the framework of an ICDP research project looking at the future role of national distribution companies across the European market, and adopted a manufacturer focus.

In gathering the dealer perspective, the chief problem to overcome was the sheer size of the dealer body in the European market. Now however, this situation was reversed, with the number of suitable respondents at manufacturer-level both able and available to provide the data requested extremely limited. From the perspective of a car manufacturer, with many hierarchical layers and activities subdivided into innumerable departments and different job descriptions, the focus of the research was a broad one, covering many aspects of their marketing and distribution activities, and required respondents who had both broad

⁴ Examples of the questionnaire are given in Appendices III and IV, and a selection of responses is contained in Appendix V.

experience of the industry and also sufficient detailed knowledge of all these areas. With there being usually very few people within an organisation capable of giving both a comprehensive overall view of company strategy, and also suitable contextual accounts of company structures, histories and future plans, the research inevitably had to target these few élite executives to participate in an interview programme.

Once again for the practical reasons of time and resources, it was necessary to select a sample of companies to participate in the national distributors project interview programme. This sample was chosen deliberately from among the ICDP sponsor organisations according to six predetermined categories. The background literature strongly suggested that the car distribution chain might evolve in different ways according to the type of manufacturer involved, so it was decided to survey a selection of volume, specialist and Japanese manufacturers. To this were added three further categories of manufacturer-owned and independent national distributors and specialist service providers, meaning other distribution chain actors well placed to comment on the topic in question. The 11 companies that participated are listed in Appendix VII, the discussion topics are summarised in Appendix VIII, a selection of transcriptions are presented in Appendix IX, and the findings are discussed in Chapter 6.

The qualitative interviewing technique adopted here was 'semi-structured, semi-standardised and open-ended' (Yin, R., 1984). In this respect, it is 'modelled on a conversation between equals' (Taylor, S. and Bogdan, R., 1984), and is considered an appropriate method when, amongst other things, the research interests are relatively clear, when the respondents would not otherwise be accessible, when there are restraints on the researcher's time and resources, and when the research depends on a broad range of settings and respondents (Taylor, S. and Bogdan, R., 1984).

13 in-depth discussion sessions were held, each lasting at least 2 hours. These were arranged through the ICDP sponsor contacts, who themselves occupied senior positions within the distribution and marketing areas of their companies, and would usually involve both them and other, usually more senior, colleagues who had been invited to attend because of their superior expertise on the subject. Examples of the respondents' job descriptions are given in examples where their contributions are quoted. The sessions were semi-structured, with the respondents having been sent a topic list prior to the meeting. The questions were open-ended in nature, inviting the respondents to reflect on the issues that form the backdrop to their everyday work, and again moved from general information including the historical background to that company's current distribution chain structure on to more specific questions probing for the respondents' personal convictions as opposed

to the official company line concerning the future direction of the sector and the prospects for the evolution of lean thinking, and culminating in as much time as the respondents might like to take in conducting some crystal-ball gazing. More often than not, the respondents were interested to hear the researcher's ideas and opinions, and the ensuing discussions proved both interesting and fruitful.

Each session was transcribed from tape recordings and written notes, and then themes and suitable quotations were picked out. Similar themes from other interviews were then grouped together to be formed into the narrative of the research. So as to maintain confidentiality, and in keeping with the principles of the whole ICDP programme, information gathered during these meetings which was not readily available in the public domain was anonymised, with sources being identified only according to the company's category (volume manufacturer, specialist manufacturer, etc.) and the respondent's job title where appropriate.

Interview programme 2: UK

Subsequent to the first interview programme, an opportunity was made available to conduct a further series of interviews with manufacturers, national distributors, dealers and trade federations in the UK. Through the ICDP, the researcher was called upon to assist Professor Hiromi Shioji of the Faculty of Economics at Kyoto University in Japan with the UK element of a comparative study of car retailing systems in the UK, the USA and Japan. A short interview programme was constructed, again consisting of open-ended discussion sessions, conducted by the Professor and the researcher. Free rein was given to include relevant questions and to relate findings to this particular work, and the topics that were discussed matched the conceptual framework and research hypotheses of this study.

In-depth discussion sessions were conducted with senior-level executives at 10 organisations; 4 manufacturers (2 operating as domestic producers and 2 wholly-owned national sales companies), 2 publicly-owned dealer groups, 1 privately-owned dealer group and 3 national trade federations. In addition to this, 3 impromptu interviews were carried out, one with a dealer principal from a publicly-owned dealer group, one with a Marketing and Customer Services Manager for a private dealer group, and one with a customer-facing member of staff at a manufacturer-owned retail outlet. The companies that were involved in all these interviews are listed in Appendix X, a summary of the discussion topics is given in Appendix XI, a selection of transcriptions is presented in Appendix XII, and the results are discussed in Chapter 6.

5-3-2-2 MODEL VALIDATION AND TESTING

As will be reported later in this thesis, the pilot and qualitative interview phases of the research provided a wealth of evidence and opinion which both substantiated and countered the material emerging in parallel from the secondary research activities. The next step in the research was to distil these concepts into a model which could then be tested by more experimental means back on the industry itself. This model, which is outlined in more detail in Chapter 8 consisted of a checklist of what appeared to the researcher from the previous primary and secondary research to constitute the key structural developments that are being instigated as a result of the implementation of the 'lean thinking' paradigm across the car distribution chain. The research then sought to validate this model in terms of:

- the extent to which the industry concurred that these concepts were salient to its future evolution;
- the industry's estimations of the progress of and prospects for implementation of these concepts.

This was conducted firstly by means firstly of two small case studies and secondly, and more importantly, by a quantitatively-based survey.

Case studies

The case study approach (and especially the case-based reporting mode), was outlined by Yin (Yin, R., 1984; Yin, R., 1993) and defined as an enquiry that

"investigates a contemporary phenomenon within its real-life context, when the boundaries between phenomenon and context are not clearly evident and in which multiple sources of evidence are used".⁵

The use of a case-based approach is also advocated when the topic is defined broadly and not narrowly, when the researcher has no direct influence over the events being examined, and when the aim is to cover the contextual conditions as well as the actual phenomenon under study (Yin, R., 1984; Yin, R., 1993). In this respect, it was considered that the

⁵ Yin, R., 1984: p23

inclusion of two case studies, one involving a company not involved in ICDP, would serve to bolster the research by allowing the concepts elaborated in the research model to be viewed in their real world contexts in a little greater detail than was possible in the other phases of the fieldwork.

Two case studies were conducted, one on the arrival of South Korea's Daewoo Corporation in the European market, and the other on the UK-based Rover Group's 'Distribution Efficiency' programme for the European market. Both companies display very different characteristics and situations, and the case studies sought to illustrate elements of their thinking and strategic approaches to the European market.

The Daewoo study was compiled totally from secondary sources,⁶ and their case is certainly well-documented across Europe. As a major new player in the marketplace, they have adopted an innovative (and potentially risky) approach to marketing and distribution in the UK, an approach which has aroused a great deal of comment in the industry and a not insignificant amount of opposition from the UK dealer sector. This approach may also in time be applied to other continental markets. The publicity their strategy has generated made the prospects of gaining access to primary research respondents very difficult, and the company was unwilling to be judged until its strategy had been given the time to become fully established (the company only started selling cars in the UK in the spring of 1995). In any case, this case study sought not to judge the success or failure of the venture, but to examine its characteristics from the perspective of the research model, something which it was possible to achieve using the many secondary sources available.

The Rover study was compiled from both primary and secondary sources. The history of Rover is a well-known one in the industry, involving in more recent times a vast rationalisation from a multi-brand nationalised monolith into a two- (and now three-) brand manufacturer (Rover, Land Rover and MG), an alliance with Honda and now a fully-fledged marriage to German luxury manufacturer BMW. For the purposes of this study, it is sufficient to situate Rover as a company which, having fundamentally rethought both its product and its production strategies in order to face up to new competitive conditions, is now generally recognised by the rest of the industry as being at the forefront of the 'lean revolution' in terms of rethinking its distribution and marketing value chain across the whole European market. Mr Peter Bailey, one of the 'Distribution Efficiency' project managers at Rover, has been involved in this process from the outset, and was able to share

⁶ Including publications such as the Financial Times, Car, Autocar, Automotive News Europe, Automotive Management, Motor Trader, Le Journal de l'Automobile, L'Argus de l'Automobile and company literature produced by Daewoo's headquarters as well as its UK, French and German subsidiaries. Also, conference speeches delivered by executives from the UK operation.

some of the company's thinking, experiences and future plans for this study. The two case studies are presented in Chapter 7.

Postal survey - The Concepts of Lean Distribution

The primary research phase of the study was then completed with a further postal survey, entitled "The Concepts of Lean Distribution". As mentioned above, this sought to test the model developed throughout the study by measuring both the degree of industry association with these concepts and also industry perceptions of progress and future prospects at the implementation stage. Kirk and Miller argue that qualitative observations identify the presence or absence of a phenomenon, in contrast to a quantitative observation which seeks to measure the extent to which the phenomenon is present (Kirk, J. and Miller, M., 1986). This was the aim of the survey; to move the study forward from establishing the existence of a number of sectoral developments which could be termed 'lean distribution' towards assessing the extent of their presence across the European market.

Again, restrictions of time and resources meant that a postal survey was the most appropriate means of data gathering, and the sample was made up of all sponsors and non-sponsor industry contacts on the ICDP database. This gave a broad base of extremely high level respondents from within or concerned with the industry right across Europe, including governments, manufacturers, national distributors, dealers, trade federations, parts suppliers, oil companies, other service providers (computer systems specialists, distribution and logistics specialists, etc.) consultants and academics. Many sponsoring organisations have a number of ICDP contacts located within different functional areas and even in different countries, so survey distribution was not limited to one per company, which further helped to broaden the perspective of the study⁷.

In total, 150 surveys were distributed; these were posted, along with a covering letter, inside an issue of the monthly ICDP newsletter. 44 responses were received, which equals a response rate of 29.33%. Prior to distribution, copies of the survey were pilot-tested on other members of the ICDP research team, and their comments and suggestions were incorporated into the final version. A sample of the survey is included in Appendix XIII, a flavour of the types of respondent is given in Appendix XIV, and the survey is presented in more detail in Chapter 8.

The survey consisted of two questions which required respondents to tick boxes on a table.

⁷

A list of ICDP1 sponsor organisations is given in Appendix I. However the final distribution for the survey was wider than this, as it included many non-sponsor contacts who also receive copies of the monthly newsletter.

Each question occupied one piece of A4 paper, and an additional sheet was included at the end for comments and suggestions. The whole survey was designed to be faxed back, which ensured quick responses for the researcher and a minimum of inconvenience for the respondents.

The survey was conducted anonymously. Respondents were not required to insert either their name or that of their company. This was because it was not the intention of the survey to compare different categories of industry actor or types of manufacturer; this had already been conducted elsewhere in the research; but rather to measure overall industry opinion of the chosen topics. It was also felt that respondents would be more interested in the survey if they were invited to give their personal opinions based on their industry experience, rather than to repeat their company's official stance on the matter which would, in most cases, be known to the researcher anyway. Nevertheless, despite this anonymity, it was often possible for the researcher to observe anecdotally, from the incoming fax headers and cover pages, which individuals from the sample were responding. This observation was used to ensure that responses were arriving from a broad spread of different types of organisation, and this indeed turned out to be the case.

The survey was analysed statistically using parametric ANOVA tests to look for statistically significant levels of variances between the responses. Greene and D'Oliveira advocate the use of such parametric tests where possible as they are more powerful than their non-parametric equivalents, making exact calculations of variance as opposed to the simple rank ordering of a Friedman test (Greene, J. and D'Oliveira, M., 1982). The authors list three requirements for parametric tests; experimental scores measured on an interval scale, a normal distribution of scores and a homogeneity of variance, meaning that the variability of scores for each experimental condition should be roughly the same. It was felt that the data collected satisfied all these criteria. As all the distributed surveys were identical and no attempt was made to differentiate the respondents according to their company or job title, this meant that the survey design was a related one; all the subjects responding to the same questions throughout. This, together with the number of experimental conditions (factors) within each question, made possible the use of related ANOVA tests, although slightly different types were employed for each question. As is covered in more detail in Chapter 8, the data was tabulated in a spreadsheet, and the tests were conducted using Microsoft Excel.

Following confirmation by means of these quantitative analyses, the researcher could go on to pick out themes and trends from the data. As was the case with the earlier phases of the fieldwork, these were then combined with pertinent comments and quotations submitted by

respondents and worked into the narrative of the research.

5-3-3 ISSUES OF VALIDITY AND RELIABILITY

As has been made clear throughout this chapter, research methods cannot exist and operate in isolation. It is vital therefore for the researcher to ensure that the variety of research methods chosen fit together to form a valid and coherent whole, and that they are jointly and severally valid and reliable (Easterby-Smith, Thorpe and Lowe, 1991).

The driving philosophy behind the construction of this study has been to employ multiple methods to approach the same problem from a number of different perspectives, thus increasing the likelihood that erroneous findings would spring quickly to light. For instance, the qualitative methodology used for a significant proportion of the work cannot ever be considered to be completely impartial. As it is the researcher who has chosen to look at the particular problem, who has framed it for study and who will be responsible for identifying concepts and categories within the qualitative data that has been collected, it is unavoidable that the whole process is subject to his values and frames of reference (Lincoln, Y. and Guba, E., 1985; Taylor, S. and Bogdan, R., 1984). Therefore, the more quantitatively-based final survey and, to a lesser extent the case studies, serve to increase the objectivity of the whole by providing more 'hard' evidence. This approach is supported by Yin, who points out that findings that can be reached using more than one approach can logically be considered to be more convincing and more accurate (Yin, R., 1984), and using multiple sources of evidence for an essentially qualitative piece of research, the researcher is able to tackle a broader range of historical, attitudinal and observational issues, and is also able to achieve triangulation through the development of 'converging lines of enquiry' (Yin, R., 1984; Mayes, D., 1991).

*"Consider the difficulty of establishing the occurrence of an event. You would be more confident in saying that the event actually had occurred if your study showed that information from interviews, documents and your observations all pointed in the same direction."*⁸

If the use of multiple sources of evidence helps to build the validity of a study, then the

parallel concept of reliability is defined by Easterby-Smith et al as basically a question of stability; if the instrument is administered to the same individual on more than one occasion, will the outcome be the same (Easterby-Smith, Thorpe and Lowe, 1991)? Quantitative research, being essentially concerned with verification, has a whole range of well codified procedures for establishing that the measuring instruments employed are both valid and reliable (Berger, R. and Patchner, M., 1988). For instance, checks can be made on the internal validity and the external validity of the research by reordering or recalculating the experiment, or by repeating the measure on another sample. Absolute rigour in this form is simply not available to the qualitative researcher working with the 'human instrument', who must instead work to a strategy of damage limitation, of plugging holes by being as open and objective as possible (Lincoln, Y. and Guba, E., 1985). Yin (Yin, R., 1984) talks of the importance of 'maintaining a chain of evidence' in order to increase the reliability of the information, so that the reader is able to follow the research through easily from questions to conclusions.

Each of the chosen research methods brings with it a particular set of problems and pitfalls that need to be considered by the researcher. For instance, it is ultimately very difficult to remove all potential for bias from the interview format as the whole process is subject to the researcher's frames of reference. In this study, this potential problem was mitigated by the distribution of a sheet of prepared interview topic areas a few days prior to each interview so as to ensure that all respondents were able to prepare their thoughts in advance, thus minimising the researcher's need to steer respondents in the desired direction during the interviews themselves. As the researcher's knowledge of the subject area grew throughout the work, so it became easier to frame the topic areas in advance so as to stimulate respondents to talk freely. Finally on the matter of interviews, a further potential source of bias is the sole use of ICDP sponsor organisations as interview respondents. As with the individuals who have elected to act as sponsor contacts, it might be considered that these companies will be the most progressive and research-friendly in the industry. This may have been the case if the ICDP only had the backing of a limited proportion of the industry, but a look at the sponsor list reveals that it would have been hard to select a major company not involved with the project, such is the interest that it has aroused.

Similar concerns regarding the survey elements of the work were addressed firstly by piloting the survey on other ICDP researchers (all bar one of whom spoke English as a second language); this process picked up any inconsistencies or bias in the survey formulation, and secondly through the use of the statistical tests outlined above.

In his seminal work on the matter, Yin points out three potential criticisms of the case

study method:⁹

- *“It lacks rigour, meaning that equivocal or biased views can influence the direction of findings and conclusions.”*

In the case of this research, this issue was addressed by restricting the case study element to a relatively small proportion of the work, using it as an opportunity to explore some of the themes raised by the rest of the work in more detail, rather than as a critical part of the hypothesis testing.

- *“There is little basis for scientific generalisation.”*

This argument can be accepted by the research without contradiction, as one of the aims of the work was to show how the responses to the competitive challenges examined by the study will be individual to each car manufacturer or distribution chain actor, and not general across the whole industry.

- *“Case studies tend to be too long, resulting in massive, unreadable documents.”*

Again, the use of the case studies as but one element in the overall research strategy, and the space limitations imposed by the thesis form, together mean that only the key aspects from each case were used to contribute to the presented fieldwork. Both cases would, however, warrant more detailed study on their own as both constitute worthwhile and interesting examples.

As mentioned earlier, this overall approach of using multiple sources contributed greatly to the validity, consistency and reliability of the work, and enabled similar questions to be put to both ends of the distribution chain, thus helping to build an overall understanding of the sector. It also helped to prevent bias creeping into the research; all the findings that came out of the questionnaires and interviews could both be reflected directly back to the hypotheses and could be employed in the formulation of subsequent stages of the fieldwork, with any alternative explanations for the phenomena under study that might emerge not being rejected, but instead being examined within the context of the hypotheses as contributory evidence to the understanding and illustration of the issues. Finally, the appropriateness and sensitivity of each measure (such as the survey or interview questions) could be reassessed following each stage of the fieldwork process to ensure that the methods employed were resulting in the collection of a suitable volume and quality of data,

⁹ Yin, R., 1987, p21-2

and detail elements of the survey, cases study and interview methods could then be modified as necessary prior to the next stage.

5-3-4 DISSEMINATION OF THE RESEARCH AND THE FEEDBACK PROCESS

The open and participatory nature of the ICDP meant that the sponsor organisations were given regular updates on the progress of the work and ready access to the findings, with comments and suggestions being welcomed. The "Role of National Distributors" project included the publication of two large reports¹⁰ and two major presentations to the assembled sponsors at 'Policy Forum' meetings. Both of these invited comments and suggestions from all the sponsors, not just those who had participated in the interviews, and the presentations were followed by open discussion sessions. This sponsor feedback process, combined with a similar input from the other researchers involved in the Programme, played an important role in building the trustworthiness of the work by confirming that the data was being portrayed accurately and that the ideas being developed were not too far wide of the mark. This dissemination process also helped to generate interest within the industry, which constituted a useful base for seeking further interviews and developing new ideas.

Figure 5-4

MAJOR RESEARCH PRESENTATIONS TO ICDP SPONSORS

Autumn 1994	Oxford, UK
Spring 1995	Perugia, Italy
Autumn 1995	Mougins, France
Spring 1996 (Daewoo study)	Divonne, France

¹⁰ Tongue, A., 1995: "*Environments and Activities of National Distributors*" and "*Trends and Prospects for National Distributors*", both published by ICDP Ltd., January and July

5-4 CONCLUSIONS

This chapter has outlined, explored and justified the methodology chosen for this research. It has shown the logical progression of the work through pilot interviews and surveys, two interview programmes, two case studies and finally a survey to test and validate the findings. Secondary research has continued in parallel alongside this primary work.

The next three chapters now present the findings from the pilot survey and interview programmes, the short case studies and the final survey respectively, after which Chapter 9 draws the research conclusions together.

CHAPTER 6

PILOT SURVEY AND INTERVIEW PROGRAMMES

"At the moment, it's like a war. The dealers are at the front, facing the enemy. The manufacturers stand at the back, looking through a telescope."

Distribution strategies manager, European volume
manufacturer

6-1 INTRODUCTION

The purpose of this chapter is to present thematically some of the material which resulted from the pilot interview and dealer survey and also from the two interview programmes. The chapter is split into three sections, as follows:

- Physical distribution activities;
- Distribution chain organisation;
- Selling and marketing activities.

Each section brings together the material gathered from manufacturer, national distributor, dealer and other chain actor respondents, and thus seeks to examine the developments underway in the sector from a multitude of perspectives both within the context of the development of lean distribution and also that of the emerging single European market.

Further details of the construction of both the pilot survey and the interview programmes are given in Appendices III and IV (pilot survey) and VII, VIII (first interview programme), X and XI (second interview programme).

"The EU has had quite a big effect on the need for us to control our sales and marketing presence in the Member State markets."

Director of European dealer operations, volume
manufacturer, UK (Interview programme 1)

6-2 PHYSICAL DISTRIBUTION ACTIVITIES

6-2-1 THE CLIMATE FOR LEAN SUPPLY AND STOCKING FACILITIES

All phases of the fieldwork asked respondents to evaluate the climate for the implementation of the physical distribution, or supply and stocking system aspects of lean distribution, considered in the literature to be the most immediately manageable area of change.¹ There was almost universal agreement that the 'leaning' of the car supply system has the potential to alter significantly the ordering and selling procedures for dealers. However, at the time of the pilot survey, which was early on in the research, the dealers did not consider that very much change had yet taken place.

Consequently, comments from the postal questionnaire dealers on this matter were centred around two concerns associated with the changes that their manufacturers might require them to make as part of a move towards lean distribution. Firstly, the industry-wide trend for manufacturers to cut dealer margins on new car sales, and to replace them with bonus payments for meeting performance or quality targets; this was seen as being part of the move away from the stock-push mentality towards a more customer and quality focused approach. Some of the dealers were concerned that this represented a threat to their ability to trade, and to make a deal with their customers.² One UK national federation also pointed out that, with reduced margins, the manufacturers are now retaining more of the selling price of the car for themselves than used to be the case. For instance, a typical gross margin in 1989 was 17.5%, meaning that the manufacturer theoretically took 82.5%. With the 7% margins being operated today, the manufacturer keeps 93%; it was wondered whether this situation was one which the dealers would be prepared to put up with over a period of time.³ Secondly, dealers from both the UK and France expressed reservations at the capital outlay that would be involved in acquiring the new computer equipment, etc. that the manufacturers would demand.⁴

¹ See sections 3-3-1 and 3-3-2

² Interview programme 2

³ Interview programme 2

⁴ Pilot questionnaire

As the research progressed, talk of lean distribution and supply system changes in particular came to occupy centre-stage as a focus for the whole industry. By the time the first interview programme was conducted, the respondents wanted to talk about little else. So, had the dealer questionnaire been conducted just a few months later, it is probable that the issue would have filtered down to occupy the minds of even the most remote dealers. However, all the dealer respondents who mentioned it nevertheless concurred that the reversal of the traditional stock system to use the customer order as the trigger for the production and distribution process would constitute a major factor in the search for more partnerial relations between manufacturers and dealers.⁵

"Lean distribution requires a major increase in trust between manufacturers and dealers."

Pilot interview with policy director of UK trade federation

6-2-2 MOVES TOWARDS LEAN SUPPLY AND STOCKING SYSTEMS

As has also been confirmed by many other areas of the ICDP research programme (International Car Distribution Programme, 1993(b) and 1995(b-e)), moves towards the 'leaning' of the physical distribution process and the introduction of activities such as direct dealer ordering and pan-European logistics emerged during the fieldwork as being underway in the distribution chains of many manufacturers, and these look set to improve radically the performance of the whole post-factory area.

6-2-2-1 THE 'LEANING' OF PHYSICAL DISTRIBUTION PROCESSES

Fieldwork respondents agreed with the notion, as discussed in Chapter 3, that the process of 'leaning' the physical distribution processes in the chain involves radical changes in

⁵ Interview programmes 1 and 2

both the directions of flow present in the chain; not only the downward flow of finished products into the markets, but also the upward flow of orders and other data from the markets to the producers (Womack, J., Jones, D. and Roos, D., 1990). The latter is realised by having the dealers placing their orders, both for stock, although this is gradually being weeded out of the system, and sold customer orders, directly with the factory or headquarters, with the information flow potentially bypassing the national distributor level.

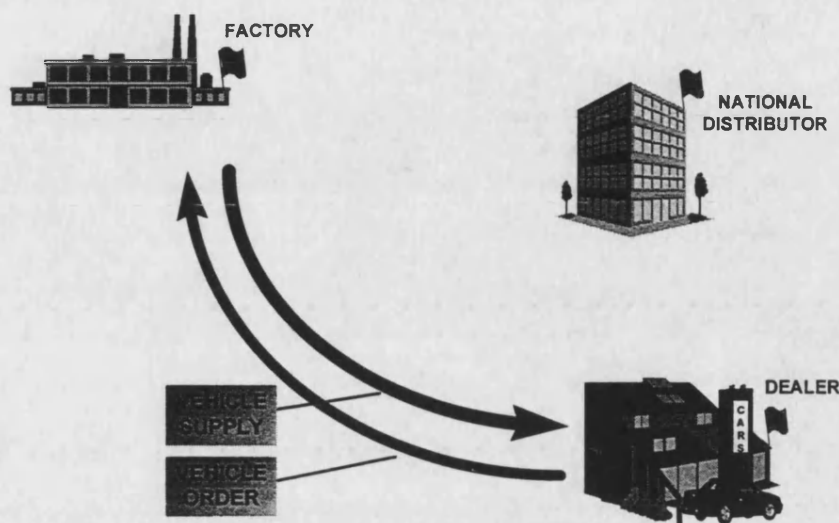
"It is important both for the dealer and for the people in the factory to see exactly what the dealer is selling."

Sales company director, European specialist
manufacturer (Interview programme 1)

In the downward direction, the developments mentioned included the introduction of integrated distribution involving pan-European logistics, new distribution centres suitably located for the forwarding, rather than the storage of products (which therefore usually means in the interior of markets rather than at the ports of entry as before), and the redistribution of post-factory activities such as PDI⁶ or special model preparation to these centres or to the dealers were all confirmed by the interview respondents as making significant inroads into everyday company activity. However, several of these respondents also confirmed the view gathered during the pilot fieldwork that the introduction of lean distribution is not straightforward, but will require a major shift in mindset for the manufacturers away from the traditional 'stock-push' system, and also a significant increase in trust throughout all levels of the chain.

"Adopting lean distribution is dependent on the manufacturers completing the cultural shift from being production-driven to being marketing-driven."

Pilot interview with policy director of UK trade
federation

*Figure 6-1***DISTRIBUTION ACTIVITIES (1)****6-2-2-2 THE 'LEANING' OF THE PARTS SUPPLY CHAIN**

Three manufacturer interview respondents reckoned that the same trend has been applied at an even faster rate to the ordering and supply process for parts, with change driven for the manufacturers by the desire to improve the speed and quality of service for the dealer and customer, thus building the loyalty of both.⁷ Direct ordering by dealers has been coupled with integrated pan-European logistics carried out either by the manufacturer or its subsidiary, or by a specialist partner, and the results for the companies questioned have been universally positive. For example, one French manufacturer confirmed that its parts for the French, German, Benelux and Italian markets are now all supplied directly from France, and also that they are moving rapidly towards shared parts warehouses for the two makes of car that the group produces.⁸ These respondents thought that parts were both an easier product stream to manage than cars, having fewer specification combinations, and

⁷ Interview programme 1

⁸ Interview programme 1

were also less culturally-bound; together, they thought that this meant that a pan-European strategy would be easier for companies to reach. Nevertheless, parts still constitute a major activity and revenue-earner for the national distributors, and so some manufacturer interviewees admitted to having encountered opposition from national distributors who do not wish to lose control over their parts activity.⁹

6-2-3 THE GRADUAL HARMONISATION OF INFORMATION SYSTEMS

Fieldwork respondents considered one essential element of the lean distribution process to be the information technology network that connects all actors in the distribution chain (Womack, J., Jones, D. and Roos, D., 1990). Ensuring that the same system is in operation in all a manufacturer's markets is the key factor in being able to exchange information, such as vehicle orders, and their position within the pipeline, between the various levels who can act on such information. Such systems constitute a major integrating factor, as the technology installed today will have to meet the needs of the whole market, and its performance will condition the quality of the information flow received by both ends for the years ahead.

Changing information systems across the European market has, however, turned out to be a slow and expensive process, with each national distributor, and especially the independent ones, tending to have built up their own computer networks in accordance with their local needs. Whilst such equipment is performing efficiently, the cost and confusion involved in switching to another system is not always easy to justify. One national distributor interview respondent highlighted a potential problem for the national distributors and for the dealers, both of whom need to be of a certain size in order to be able to afford and to justify the new equipment. However, he pointed out that their size may not be an accurate reflection of their local market penetration, which may be significant enough to warrant the manufacturer's full attention and the latest equipment.¹⁰ It can therefore be assumed that new equipment will therefore tend to go to the bigger, more important, and especially to the manufacturer-owned markets (national distributors and dealers) first, with the smaller markets likely to operate older arrangements for longer, even though this may be a less than

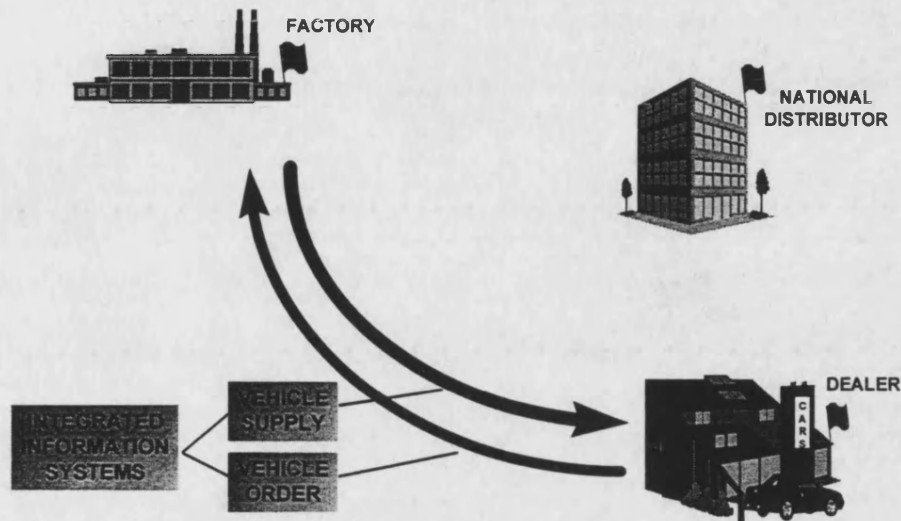
⁹ Interview programme 1

¹⁰ Interview programme 1

ideal solution.

Figure 6-2

DISTRIBUTION ACTIVITIES (2)



6-2-4 A REDUCTION IN SPECIFICATION DIFFERENCES AND MODEL VARIANTS

As identified in the literature,¹¹ potentially the single biggest element in making pan-European supply and stocking systems function is the harmonisation of equipment specifications and model ranges across Europe, allowing vehicles, either in the form of orders or as finished articles, to cross the remaining national boundaries; cars meeting orders and vice-versa (Commission of the European Communities/Ludvigsen Associates, 1988; Maves, D., 1991; Banville, E. de and Chanaron, J-J., 1991). The continued lack of common specifications not only reduces the significant efficiency benefits which could be reached, but also removes the opportunity to stimulate a convergence of marketing.

¹¹ See section 3-3-3

Despite the agreement of a unified Type Approval regulation after years of disputes, progress in this area has, in the words of one manufacturer, been '*painfully slow*', with manufacturer respondents pointing to differences in technical regulations, tax laws and in local market preferences for the persistence of specification discrepancies.

"Each country has its reason, or its excuse, to be different."

Distribution strategies manager, European volume
manufacturer (Interview programme 1)

Some other respondents claimed that manufacturers are deliberately dragging their feet, as separate specifications allow the manufacturers to maintain different prices in each market, and that they are guided in this by the level of competition in each market.

"The lack of pan-European equipment specifications is as much a function of what the opposition is doing in that particular market as anything else."

Marketing director, global volume manufacturer
(Interview programme 1)

However, all the manufacturers interviewed admitted that they are currently moving to reduce the number of variants of each model range on offer, which suggests that an over-proliferation of models is the real obstacle to change. In the future, once the platforms and actual base specifications of the cars have become common (or as close as possible), what will change will just be the equipment option packages, although, as one company interviewed pointed out, if a North European customer wants a feature normally seen on South European cars, not only will their car have been engineered to receive the option, under a lean distribution system they will be able to receive it with a minimum of delay.¹²

¹²

Interview programmes 1 and 2

"Whereas in the past manufacturers were more or less forced into producing national specifications, what we are trying to move to now is a regional specification. We are trying not to constrain availability by region; if a North European customer wants air conditioning, the car will have been engineered for it, so he can have it. In essence we want to take all the barriers away, and let the customer have what they want, even if it means they have to wait for it."

'European Office' representative, volume manufacturer,
UK (Interview programme 1)

This scenario corresponds to the principles of lean production; a product assembled to the individual consumer's specific needs on a common base, and two manufacturer respondents pointed out that it could be used as an argument for those operating imperfect distribution systems for actually lengthening the time between the customer placing his order and taking delivery of the car.¹³ One respondent pointed out that the comparison with other custom-made products reveals much longer lead times, and also greater consumer acceptance of the need to wait for their personal product to be made (the example was given of major items of furniture, where the customer might be prepared to wait a considerable length of time for his purchase to be delivered). Such a lengthening of the time taken to fulfil customer orders, combined with the removal of as much stock as is possible, would, in their opinion, not only enable a more stable production schedule to function, but would also mean that the actual delivery date promised could be adhered to.¹⁴

The achievement of common specifications across Europe, and the potential to ship cars across markets would therefore appear to be especially crucial for those manufacturers producing elsewhere and shipping their cars to the European Union on long lead times. Because the long period of time the car must spend on the boat is absolutely unavoidable, interviewees from such companies admitted that they need to do everything within their power to ensure that the rest of the system runs as efficiently and as flexibly as possible. By the same token, they thought that this competitive handicap was something that the domestic producers should be in a position to exploit, but until they achieve common specifications, this will not be the case and this opportunity may soon be missed.¹⁵

One of the more progressive respondents reckoned that this should lead manufacturers to question the extent to which local market needs and preferences really do differ, and, as in the above quotation, to move wherever possible away from national specifications which,

¹³ Interview programme 1

¹⁴ Interview programme 1

¹⁵ Interview programmes 1 and 2

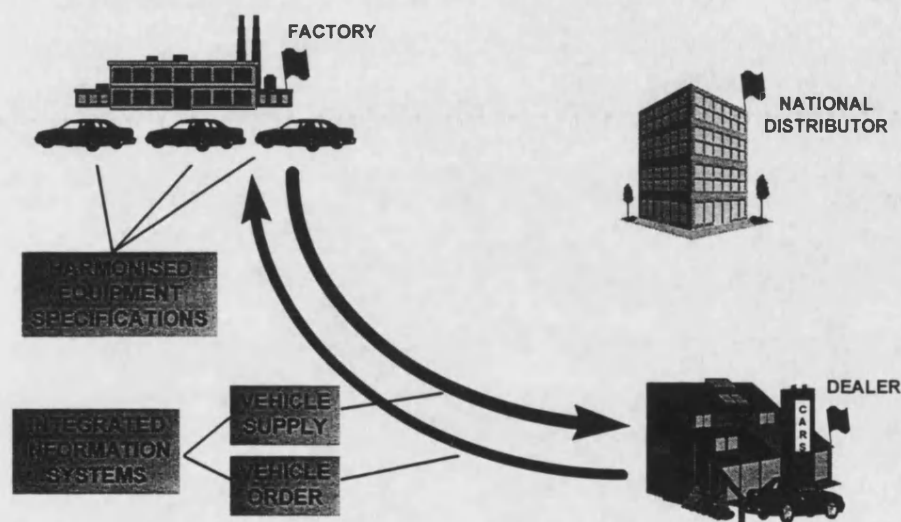
under a lean system, prevent the supply chain from working at its utmost efficiency and which constrain availability for the consumers.

"Specification differences do little more than irritate the consumers."

Chairman, manufacturer-owned national distributor
(Interview programme 1)

Figure 6-3

DISTRIBUTION ACTIVITIES (3)



6-2-5 CENTRAL NEGOTIATION STRUCTURES FOR FLEET AND MAJOR RENTAL PURCHASES

One further trend observed here during both the manufacturer and the dealer sections of the fieldwork is the introduction in some instances of mechanisms enabling major customers such as fleet operators, rental companies, etc. who operate internationally, to negotiate centrally with the manufacturer rather than each of their national subsidiaries talking to the

national distributor for that market. One respondent from a specialist manufacturer thought that this single point of contact might allow the customer to achieve a better deal with regard to supply conditions and mean greater volumes for the manufacturer overall.¹⁶

However, most manufacturer interviewees stressed the need to involve the national distributors in this process, as the cars supplied in this way will inevitably have to return to the dealer network in their country of use. One pointed out that there would otherwise be little incentive for the dealer or for the national distributor to offer their best level of personal service or care, *"particularly at 5pm on a Friday"*, to a car they have never seen before, and whose sale and supply they were not involved in, even though the service revenue will be welcome. None of the interviewees really wanted to consider the possibility in the future of manufacturers moving on from this to direct selling, with major international orders invoiced and dispatched from the centre. Such a move would risk alienating the national distributors and the dealer networks completely, but as one manufacturer respondent pointed out, it would make serious economic sense if a single currency was in place ... Under such a scenario, even if it is a long way off, this respondent thought that manufacturers may well choose to retain the involvement and goodwill of the dealers, who after all would still be called on to maintain the car, by supplying through them. For the moment, such a route may be fraught with pitfalls, but that is not to say that one of the newer manufacturers in the European marketplace, for whom the cultural obstacles to introducing innovative ideas may be fewer, could not attempt it in the not-too-distant future.¹⁷

6-2-6 THE NATIONAL DISTRIBUTOR LEVEL BYPASSED

So, most of these developments in distribution activities have the potential to allow the national distributor level to be bypassed by electronic transactions in one direction, and by centrally-coordinated logistics flows in the other. This process is in harmony with the logic of lean distribution as presented in the literature,¹⁸ allowing the manufacturers to gain full sight of customer demand by introducing transparency into the ordering chain, so essential to them being able to produce the cars that their customers want in the right quantities, and

¹⁶ Interview programme 1

¹⁷ Interview programmes 1 and 2

¹⁸ See section 3-3-2

also providing a rationalisation of supply operations, bringing gains in efficiency as well as cost savings by reducing the duplication of activities (International Car Distribution Programme, 1993(b); Womack, J., Jones, D. and Roos, D., 1990).

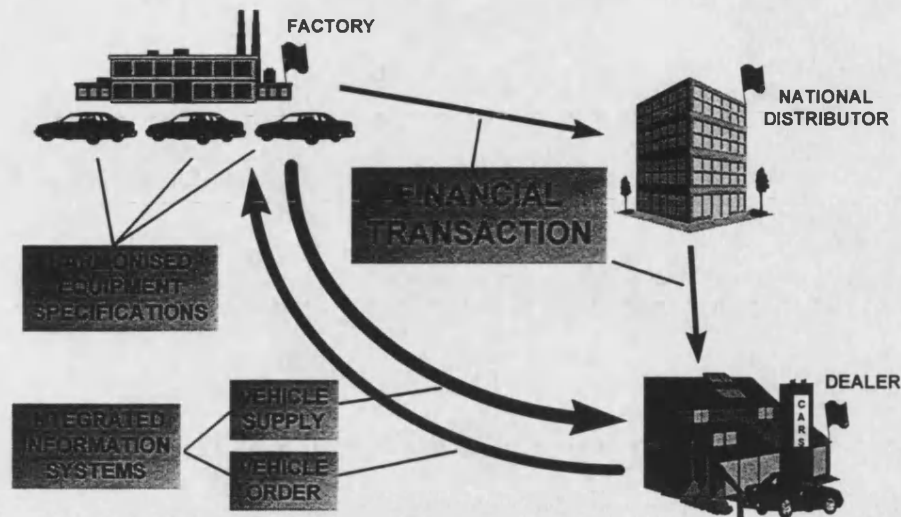
"We are on the edge of a revolution. The dealers want to change, so it is up to the manufacturers to lead them."

Independent sales company director, European volume manufacturer (Interview programme 1)

Nevertheless, manufacturer and national distributor respondents felt that this will not result in the latter being left out of supply and stocking activities completely, as it will still retain the vital function in taking care of the financial transactions involved in the supplying of cars and parts, certainly in the medium term. The continued fluctuation of different national currencies across the European market, combined with the sheer volume, small average size and financial precariousness of the dealers to be supplied, are together sufficient to make the possibility of the manufacturer handling all invoicing of dealers and other treasury activities centrally too risky a strategy. That is not to say that such a centralisation will not be possible once a single currency is in place, nor that it might not be a target for potential outsourcing to specialist subcontractors ...¹⁹

Figure 6-4

DISTRIBUTION ACTIVITIES (4)



6-2-7 THE EMERGENCE OF TWO-SPEED SYSTEMS

Respondents warned that the practicalities of introducing change in this area mean that things cannot be achieved overnight.²⁰ This therefore seems to be leading many manufacturers to adopt a two-speed approach; concentrating on introducing change and integrating operations in the bigger, more mature, more central and consequently usually the wholly-owned distributor markets first, where the opportunities are greater and the return on investment likely to be more immediate. The smaller and more peripheral (which usually means the independent) markets are therefore left to follow in the slow track, to be upgraded at a later stage. This means that, for several manufacturers, the smaller independent markets will continue to run 'traditional' supply and stocking systems for some time yet

"... in these markets, dealers will continue to put their wet fingers out of the window"

Chairman, manufacturer-owned national distributor
(Interview programme 1)

with regard to establishing demand and with the national distributors bargaining with the manufacturer on their behalf to secure more or fewer cars for any given month. Generally though, it was clear from the interview programmes that moves towards lean supply and stocking systems are underway in virtually all the respondents' companies.

6-3 DISTRIBUTION CHAIN ORGANISATION

6-3-1 NATIONAL DISTRIBUTOR STRUCTURES

This section looks at the evolution of channel structures throughout the distribution chain, including the national distributor, regional sub-unit and dealer levels.

6-3-1-1 A GROWTH IN MANUFACTURER OWNERSHIP OF NATIONAL DISTRIBUTORS

Looking at the general organisation of the national distributor level within the chain, the fieldwork revealed a gradual growth in manufacturer ownership of national distributors across all types of manufacturers present in the European market.²¹ However, the rate of take-overs, particularly for the domestic volume and specialist makes, seems to have slowed when compared to the past couple of decades, as the most European manufacturers now have the majority of their larger customer markets under full ownership. Historically, change in ownership was triggered by markets reaching a suitable size and strategic importance, and also by the smaller makes merging into the larger ones, although some, if not all manufacturers maintained separate national distributors for each make they controlled (Ruigrok, W. and Van Tulder, R., 1993; Harbour Wade, 1993).

However, despite a few examples to the contrary, the majority of recent ownership changes seem to have occurred either when the independent national distributor's contract expires, or when they have got into financial or other difficulties and actually need to be bailed out by the manufacturer. Most manufacturer respondents did admit that, in an ideal situation, they would like to control all their national distributors, certainly in the major markets, but that they are happy to leave the present incumbents in place for the moment if the system is

²¹ Harbour Wade, 1993; ICDP, 1996(n) and Interview programme 1

performing adequately.²²

"Over a period of time ... we would prefer to own our own importers rather than stick with an independent."

European office representative, volume manufacturer,
UK (Interview programme 1)

In contrast, instances were discovered of manufacturers actually off-loading their wholly-owned national distributors in some of their smaller, more difficult markets, turning them back to independent control. In one case, this was done as a cost-cutting measure, it having been decided that independent operators could manage these markets more efficiently and effectively than the loss-making manufacturer subsidiary.

6-3-1-2 THE INTRODUCTION OF EUROPEAN HEADQUARTERS OPERATIONS

One fairly recent development has been the introduction by the non-European, and particularly the Japanese manufacturers of headquarters or coordination centres for whole of the European market (Ruigrok, W. and Van Tulder, R., 1991). These operations replace the previous interface between the national distributors and the manufacturer headquarters in, say, Japan, and often coincide with the build-up of autonomous production facilities in the region and a dedicated European model range. Whilst this development was to be expected of the growing manufacturers, these European centres have nevertheless not been without teething problems of their own. Several of them have found that it has taken time to establish legitimacy in the eyes of the national distributors and of the dealer networks. Two respondents from national distributors admitted that they were unsure as to what the actual functions of these operations were, and where their roles were clear, were often suspicious of what they saw as attempts by these operations to meddle in their everyday activities and responsibilities.²³

²² Interview programme 1

²³ Interview programme 1

"It is not always clear to us what the people at Euro-HQ are actually doing for us."

Managing director, independent national distributor
(Interview programme 1)

6-3-1-3 A DECLINE IN STAFFING LEVELS AND REGIONAL SUB-UNITS

A further organisational trend identified during the interviews was the general reduction in staffing levels at the national distributors, especially those owned by the manufacturers. This has come as a result of new computer technology, improved communications, etc. replacing human skills in certain tasks, and also reducing the need for regional outposts of national distributors in certain countries, notably the larger and more mature markets. These reductions have often gone hand in hand with a rationalisation of the national distributor's field staff, with several having moved from narrow, functional divisions, meaning that the dealer would be visited by a large number of representatives, each covering a different activity, to a more generalist approach, where the dealer interacts with a limited number of people competent in the whole range of activities, thus fostering stronger ties and building trust.²⁴

6-3-2 PROSPECTS FOR THE EVOLUTION OF NATIONAL DISTRIBUTOR STRUCTURES

6-3-2-1 'BACK' AND 'FRONT OFFICE' ACTIVITIES

Looking at the organisation of distribution chain activities across the European markets involves taking account of two key aspects, firstly the integration of activities across functional areas and reporting lines to the company's European headquarters, and secondly

²⁴

Interview programme 1

the harmonisation of these activities across all the European markets. It is to be expected that both the integration and the harmonisation elements will occur faster in some areas of activity than in others. The most readily apparent split that emerged in the fieldwork was between 'back' and 'front' office activities.

- Anything which does not directly or visibly affect the final selling process or the customer interface, activities which are not culturally bound nor dependent on local modification to meet market needs and which are essentially systems- as opposed to people-based can be termed 'back office' activities, and as such were viewed by the respondents as more likely targets for integration at a pan-European level, being taken care of either by manufacturer headquarters or by specialist subcontractors. This was observed with activities such as logistics and physical distribution of cars and parts.
- On the other hand, those activities where the local touch and local response are still crucial, 'front office' or more people-based activities, would seem to be more suited to being conducted at the national level by the national distributor, or at the local level by the dealer.

For instance, a lean ordering system as outlined earlier would enable the customer to receive the exact specification they want within a more accurate timeframe, and the processes involved are no longer dependent on linguistic or cultural factors, but rather depend on 'back office' logistical skill. These are therefore activities which could be considered suitable to be handled centrally or coordinated on a pan-European basis if this would prove more efficient than leaving them up to each national distributor, and this was confirmed by all the manufacturer respondents as indeed being the case.²⁵ In contrast, it would seem that a highly visible factor such as a dealer's knowledge of the market and ability to respond is something which can only be instilled locally by the national distributor, and an activity such as dealer training is therefore something which could not realistically be conducted centrally by the manufacturers as long as market differences persist. However, the discussions revealed that it would be wrong to assume that all distribution chain activities will fit neatly into either the pan-European or national organisation categories. Four interviewees pointed out that certain activities could most usefully benefit from being further sub-divided into their constituent elements, with each one then being redistributed to the location in the distribution chain best suited for delivering what is needed.²⁶ This is a trend which has already been observed elsewhere,

²⁵ Interview programmes 1 and 2

²⁶ Interview programme 1

such as in manufacturing, with sub-components often being manufactured and supplied by subcontractors, with the manufacturer itself only taking care of final assembly (Womack, J., Jones, D. and Roos, D., 1990; Lamming, R., 1993). The same process would now seem to be spreading down into the post-factory chain, with activities such as PDI, special model preparation or the fitting of exhaust systems being relocated away from the factory to distribution centres and even to dealers (International Car Distribution Programme, 1993(b) and 1995(a)).

"The potential does exist for many national distributor activities to be subcontracted to independent specialists, especially in the case of the smaller national distributors. Almost anything could be handled by specialists, as long as the dealers are healthy and making money."

Managing Director, independent national distributor
(Interview programme 1)

6-3-2-2 CULTURAL INERTIA

However, it became immediately clear during the fieldwork interviews that moving activities within the distribution chain from one level to another in the search for a lean solution would be a far from straightforward process, indeed it would be one fraught with pitfalls. If there is one thing that the national distributors questioned did not like, it was what they perceived to be unexplained meddling in their activities on the part of company headquarters. One national distributor respondent commented that

"Most of the manufacturers who try to interfere with their national distributors fail."

Chairman, manufacturer-owned national distributor
(Interview programme 1)

It therefore became clear that inertia at all levels in the chain should not be underestimated, especially if the operations are likely to have activities taken away from them. After having held a responsibility for several years, it seems inevitable that national distributors and dealers would fight *"to retain their business cards"*. Respondents from three different manufacturers related how they had initiated grand schemes to reorganise their distribution activities, only to be forced to abandon them completely in the face of channel resistance.

Other respondents pointed out that, whilst convergence in customer habits and market trends may occur unconsciously, changes in organisational structures necessarily constitute discrete step changes, which inevitably demand the approval and commitment of the people involved.²⁷ So it can be assumed that, while the introduction of change in systems-based activities such as computer networks or ordering procedures is a relatively straightforward, if slow and costly process, pushing through innovations in more people-based activities is not only slow, it is also fraught with pitfalls and complications, reflecting the significant obstacle sometimes constituted by the culture of the whole distribution chain.

6-3-2-3 IS INTRODUCING CHANGE EASIER FOR CERTAIN TYPES OF MANUFACTURER?

One interviewee thought that the inherently more flexible nature and smaller size of the specialised manufacturers would mean that they would have fewer cultural obstacles to change within their organisations, even though they might find the initial investment levels required to instigate, for instance, a fully lean supply and stocking system, more onerous than their volume counterparts. The same respondent considered that the dialogue between the specialist manufacturer and its independent national distributors was more one of equals, with the specialist manufacturer more reliant upon the quality of the latter as it may not have the resources to consider taking over the operations itself. For this reason, he thought that the specialists tend therefore to be less aggressive when introducing change, meaning that it is easier for them to form new partnerships with distribution chain actors.²⁸

It would seem that even the relative newcomers to the European market such as the Japanese manufacturers are now finding themselves handicapped by the weight of their corporate histories in certain markets when it comes to introducing change. For instance, one of their number had found that national distributors who stood by them in their early years when the product was possibly less than fully competitive are now understandably reluctant to cede their franchise to the manufacturer now that their market share has grown and the new European-made models have come on stream.²⁹ By the same token, some manufacturer respondents agreed that, theoretically at least, it should be easier for the really new arrivals, such as the Korean manufacturers, to set up the structures that will best suit

²⁷ Interview programme 1

²⁸ Interview programme 1

²⁹ Interview programme 1

their future needs and aspirations across the European market. This is expected to include a high degree of integration of national distributors and dealers, as there will be fewer cultural obstacles to doing so and this is, indeed, what is emerging for Daewoo in the UK, with a network of wholly-owned sales outlets,³⁰ as will be explored in more detail in Chapter 7. Nevertheless, some respondents from the European companies found it surprising that other non-European manufacturers had not made the most of this opportunity; instead of taking advantage of their lack of a historical legacy to set up ideal 'greenfield' organisational structures, the majority appear to have chosen to take the conservative, traditional route, meaning they will have to upgrade to new systems at the same time as everybody else.³¹

6-3-2-4 PART OF A VARIABLE-SPEED APPROACH TO DIFFERENT MARKETS

This point about different types of manufacturer or channel reflects an observation made with regard to the implementation of change in supply systems and other back office activities, namely the emergence amongst some of the respondent manufacturers of a multi-speed approach.³² For instance, looking at national distributor ownership and activity changes, efforts are being concentrated on the biggest, more important, more central markets first, targeting them for manufacturer ownership where this is not already the case, and putting them top of the list for the integration of their back office activities.³³ Again, it can be induced that the smaller, strategically less important and more peripheral markets will be left off this fast track process, and independent ownership will be maintained where it functions effectively. Back office activities will not be integrated as fast, leading to the persistence of a system of trading partners. In this way, the independent national distributors would seem to almost take on the guise of a specialist subcontractor, conducting activities in cases where the manufacturer prefers not to do so itself. This serves to confirm the belief that the decision to introduce change, particularly in the smaller markets, is not driven by the current status of the national distributor, for example, by a manufacturer not wishing to pass on all its latest equipment and techniques to an independent, but by the size and the potential of the market. It can reasonably be assumed from the above that, in markets or at points in the business cycle where the manufacturer is

³⁰ Financial Times, 11/10/1994; Daily Telegraph, 04/04/1995

³¹ Interview programmes 1 and 2

³² Interview programme 1

³³ Interview programme 1

strong (such as a market where its share is significant or where sales have been increasing), its cultural influence over independent operators in the chain will be more powerful, and changes therefore easier to push through.

6-3-2-5 THE NATIONAL DISTRIBUTOR LEVEL OF THE FUTURE

The fieldwork respondents were split over whether they thought that the national distributor level in the distribution chain would actually need to be maintained in the longer term 'lean' future. Some, and particularly those from the manufacturers operating on a global level, predicted a further increase in centralisation or 'Europeanisation' in the internal market.³⁴

"Nothing that the national distributor currently does could not ultimately be conducted centrally, with local delivery where necessary."

ICDP honorary advisor, retired from a global volume manufacturer

However, all the respondents stopped short of saying that the national distributor level or its equivalent would disappear completely; the overriding consensus was that some form of national representation will still be needed in the European market of the future.

"The manufacturer will always need somebody, wherever they are sitting, to look after the dealers, an expert who understands both them and their local market."

Sales company director, European specialist manufacturer (Interview programme 1)

Many respondents also agreed that the national distributor level of the future will certainly be smaller than currently. The need to concentrate on core competencies, together with continued advances in communications and computer technology and general rationalisation will inevitably mean that less staff are needed.³⁵ As the quotation below

³⁴ Interview programmes 1 and 2

³⁵ Interview programme 1

illustrates however, the biggest change for national distributor staff would therefore appear to be one of character, as the operation moves away from a traditional trading and more towards a facilitating and monitoring role.

"The place of the national distributor in the chain is unavoidable, even if its role must and will change. It will not really be involved in the ordering or distribution processes, but will concentrate more on marketing, collecting information and gearing and steering the dealer body."

Chairman, manufacturer-owned national distributor
(Interview programme 1)

Respondents were encouraged to comment on the scenarios, suggested strongly in the literature,³⁶ which predicted a move away from national in favour of trans-national 'Euro-regional' distribution structures (in instances where manufacturers own the national level in the chain), much in the same way as has been already observed for some chain activities (such as logistics). Their feedback revealed two primary obstacles to this being achieved; the nature of the dealer network itself and the lack of monetary union between European member states:

- **The dealer body:** one European volume manufacturer respondent thought that, despite the inevitable further rationalisation of their number, the sheer volume of dealers present in the European market would render any plans to regroup them enormously complicated, and therefore expensive. Opposition could therefore be expected to be considerable, particularly so as dealers have long-standing and very close ties not only with their national distributor, with whom they may have been dealing for several generations, but particularly with their local area of operation. One of the manufacturer respondents interviewed also suggested that such a regional operation would need to operate under the control of somebody of a different nationality from the countries represented, otherwise there would be arguments ...
- **The lack of a single currency and Monetary Union in Europe:** many respondents agreed that the single biggest obstacle to the removal of national divisions in any commercial sector in Europe is the continued lack of full monetary union between the Member States. The resulting lack of fiscal harmonisation constituted, in their opinion, a major burden both to the achievement of true pan-European pricing and to the harmonisation of equipment specifications, both of which would help to stimulate a

³⁶

See section 2-3-4

convergence of marketing activity. Equally, they pointed out that the lack of a unified accounting practice also negated the possibility of manufacturers taking over the invoicing of their dealers for cars and parts to the central or 'Euro-regional' level, although they disagreed over whether it would actually be beneficial to do this.

Almost all of the respondents were, however, convinced that once moves towards a single currency have become more solid, it is inevitable that experiments along these 'Euro-regional' lines, particularly of back office activities, would follow.³⁷ Many manufacturers have experimented with such set-ups in the past, and they already operate for numerous activities such as logistics, or even technical support phone lines organised along language divisions. The segmentation of certain activities on this linguistic basis emerged as the most obvious scenario.

"Anything which does not relate to the customer directly, where the customers may still have a national preference, you could really do on a regional basis. Once the Single Market, single currency, etc. is in place, it would make sense to do things on a language basis, if the countries get together, which is not always the case."

Distribution manager, global volume manufacturer
(Interview programme 2)

6-3-3 DEALER NETWORK MANAGEMENT

6-3-3-1 A CENTRALLY-DEFINED FRAMEWORK

The fieldwork programme quickly confirmed the view that dealer network management remains the prime responsibility of the national level, with the national distributors being in sole charge of appointing and maintaining the dealer network. This is conducted within a framework of standards and operating conditions laid down by the manufacturer which apply to all markets (Womack, J., Jones, D. and Roos, D., 1990; Andersson, P., 1991). No manufacturers have really sought to increase their involvement in network management,

³⁷

Interview programmes 1 and 2

with the majority of manufacturer respondents feeling that this is not their area of expertise.³⁸

"We never interfere if everything is going well."

Independent sales company director, European volume manufacturer (Interview programme 1)

However, the central level, and especially the new European coordination centres of the non-European manufacturers, appear to be playing an increasing role in the development of tools for the shared use of the national distributors, such as dealer signage or training programmes, new model training, etc. Three manufacturer respondents admitted that they have developed central dealer planning functions, which add to rather than replacing the national functions.³⁹

"Our principal role in this area is in establishing and maintaining the policies that apply, they become the operating rules within which the local companies operate."

Distribution strategies manager, global volume manufacturer (Interview programme 2)

6-3-3-2 THE SUB-CONTRACTING OF SOME ACTIVITIES

One trend that emerged has been the subcontracting of certain aspects of network management to outside specialists. This would appear to apply especially to the non-value-added activities such as dealer business and financial management. Respondents reckoned that it has proved more efficient and cost-effective to outsource in this way, and in many instances the same specialist may cover more than one market, thus improving the information flow to the manufacturer and allowing cross-national comparisons to be made.⁴⁰ As information technology makes many of the systems-based activities more straightforward and more transparent, so the value actually added by the national distributor's staff declines, opening up the possibility for further outsourcing to specialist subcontractors. Three interview respondents, including one from a national distributor therefore thought it possible that many further activities such as aspects of dealer

³⁸ Interview programme 1

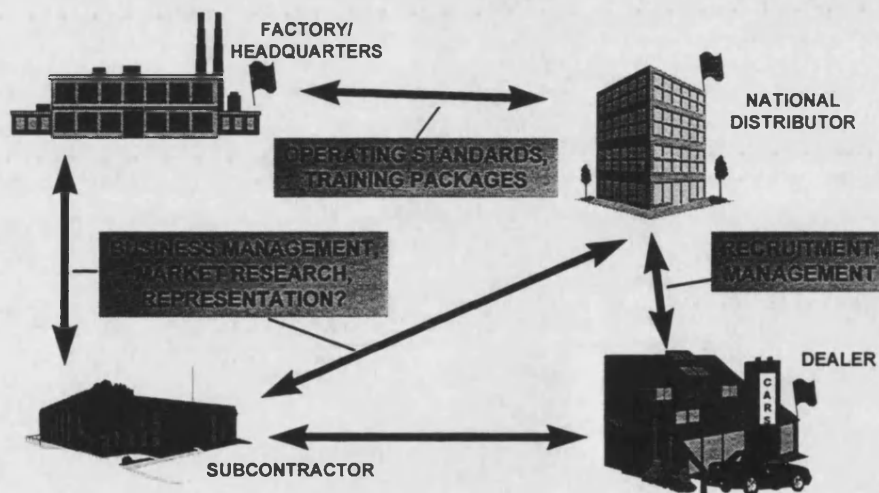
³⁹ Interview programme 1

⁴⁰ Interview programme 1

representation, or technical liaison, could be outsourced in the future, especially in the smaller, less profitable markets. Again, one specialist might conduct these tasks in more than one market (such as the Scandinavian region for example), or indeed work on behalf of more than one manufacturer in a particular market, carrying one set of infrastructure costs that used to be duplicated at each national distributor.⁴¹

Figure 6-5

DEALER NETWORK MANAGEMENT ACTIVITIES



6-3-4 DECLINING DEALER NUMBERS

The fieldwork programme quickly confirmed the suggestions in the literature concerning the dramatic reduction in dealer numbers across Europe.⁴² Several of the French dealers surveyed were pessimistic about the future prospects for the smaller dealers, with one of their number commenting that the operations which did not streamline their organisational

⁴¹ Interview programme 1

⁴² See section 2-3-5-2

structures would be the first to suffer and possibly to fold.⁴³ Most agreed with the comment that

"dealer numbers will decline significantly but progressively".

Main dealer, Paris (Pilot questionnaire)

British dealers were more optimistic that the rate of decline in the UK market has passed its peak, but warned that the rationalisation process still had a long way to go. There was a strong body of opinion that it should be the manufacturers' responsibility to help their dealers become profitable by helping them to conduct all their activities better, to raise their parts turnover, their service penetration, their customer satisfaction, etc.⁴⁴

However, the most logical approach to restoring profitability would be for the manufacturers to reduce the number of dealers by rethinking the quality/coverage balance that has to be struck in the maintenance of a distribution network⁴⁵ (International Car Distribution Programme, 1995(d)). The options for achieving this that were mentioned included:

- having larger dealer territories; this would mean having fewer dealers but giving each one a larger potential customer base and profit opportunity;
- encouraging dealers to move to occupy their territory in the most suitable way for improved customer service; this may mean adopting a 'hubs and satellites' structure of peripheral showrooms or, more likely, service-only facilities (including 'fast-fit' operations) located away from the central core;
- rationalising the second tier of dealers where they still exist into this 'hubs and satellites' structure, where they might operate a facility on behalf of the main dealer.⁴⁶

These ideas were underpinned by the notion that the loss of some territorial coverage could be compensated for by an increase in the quality of the remaining dealers. The final interview programme confirmed that all of the dealers surveyed were well aware of this scenario; some saw it as a challenge, others as an opportunity to blame dealer groups for squeezing them out of business.

"This is a sensitive issue; all the dealers think that they will be one of the chosen few when shake-out day comes, and telling them otherwise

⁴³ Pilot questionnaire

⁴⁴ Pilot questionnaire

⁴⁵ Financial Times, 21/02/1995

⁴⁶ Interview programmes 1 and 2

is not very easy."

Distribution strategies manager, global volume
manufacturer (Interview programme 2)

Inextricably linked to these suggestions addressing the current lack of dealer profitability was the debate over the evolution of variations on the franchised dealer theme and alternative retailing formats. Chief among these, and explored in more detail below were:

- dealer groups
- branch dealers⁴⁷
- multifranchising
- alternative retailing formats, including car supermarkets, pure franchising and direct sales

6-3-5 DEALER GROUPS

As was mentioned in the literature,⁴⁸ many channel developments, such as the hubs and satellites form and the removal of the sub-dealer tier, are closely linked, especially in the UK, with the growth of large public and private dealer groups. Respondents were quick to detail what they felt to be the advantages and disadvantages of the dealer group format.⁴⁹

*"The big groups have the investment power, the sales performance and the quality premises the manufacturers want."*⁵⁰

Their responses were fairly consistent with the above quotation. The advantages of the dealer groups were reckoned to be their financial strength and access to investment capital, the career ladder they can provide for their staff in order to retain them (a major problem for the individual dealers where good staff inevitably want to move on), the marketing and dealer business expertise they can assemble and employ, and their greater perspective on the industry and thus ability to respond to or pre-empt environmental factors. The disadvantages listed were those that could be associated with any major company; as they

⁴⁷ A dealership wholly-owned by the manufacturer or national distributor

⁴⁸ See section 2-3-5-2

⁴⁹ Interview programmes 1 and 2

⁵⁰ Geoff Dale, Managing Director of Evans Halshaw, quoted in the Financial Times, 17/08/1995

grow, they run the risk of alienating themselves from the marketplace and their customers, and also of developing burdensome layers of management. The publicly-owned dealer groups were criticised by one respondent for inevitably having to be more concerned with the needs of their shareholders than with selling cars.⁵¹

"Big groups start from the premise of how they can avoid losing money rather than how to start making it; their whole culture is consequently based on mistrust which permeates from the top down, and which has nothing to do with customer service."

Chief Executive, privately-owned dealer group
(Interview programme 2)

Some of the manufacturers also criticised the 'short-termism' of big group strategies, and the fact that they inevitably have different agendas from the manufacturers.

"One of the disadvantages of groups is the suspicion amongst the independent dealers that the groups have a hidden agenda and that they want to swallow up the whole network; highly unlikely, and they could not afford it."

Policy director, UK trade federation (Interview
programme 2)

Opinion diverged, however, regarding the optimal operating style for a dealer group. Most are run in the form of a collection of individual dealerships, which appears to be the most logical option considering the need for each franchise to operate as a separate business unit. There was a strong belief amongst the interview respondents that the successful groups in the future will have a much tighter regional focus, concentrating on operating a number of dealerships and building up a brand image within a closely defined area so as to develop a loyal, local customer base; this was described as "*thinking big but acting small*".⁵²

"Dealer groups are mostly run like a collection of solus dealers; no good models showing how a group should be operated have emerged yet."

Pilot interview with policy director, UK trade
federation

⁵¹ Interview programme 2

⁵² Interview programme 2

6-3-6 BRANCH DEALERS

A further retailing format discussed in the fieldwork was the branch dealer, and here again opinion diverged over their role within a lean distribution chain. Branch outlets currently tend to exist in major urban areas where the overheads would make it impossible for an independent dealer to make a living and where the manufacturer or national distributor has often had to intervene in order to maintain territorial coverage and maintain representation for the brand (Mayes, D., 1991; Europe 2000, 1991). The problems mentioned by respondents, which were considered to be particularly relevant for those actually owned by the manufacturer, are that such operations are often very costly items of central investment which seldom make a profit, they are prone to the same union disruption that can affect the factories, and also that they draw suspicion from the rest of the dealer network who often assume that these dealers are getting a privileged deal from the manufacturers.⁵³

In France, these *succursales* have been an accepted feature of the marketplace in urban areas, and respondents did not appear to have too many axes to grind about the branch dealers. Although a third of their number thought that manufacturers would have more branch dealers in the future, they nevertheless remained confident in the future of the independent dealer.⁵⁴ In the UK, independent dealers have long been wary of branch dealerships, harbouring a belief that they receive preferential treatment, sales terms, supply lead times, etc. from the manufacturers. Recently, as shall be seen, branch dealers have been implicated in the direct selling tactics of the manufacturers (International Car Distribution Programme, 1995(a)). The pilot survey respondents confirmed that these suspicions are still very much active, as did equally the interview programmes.

"Nothing undermines dealer confidence more than the suspicion that the manufacturer is favouring one dealer, one group of dealers or one area more than the others."

Policy director, UK trade federation (Interview programme 2)

Some called for the manufacturers to bring greater transparency to their relations with the branch dealers, so as to reassure their dealers that they were not being disadvantaged.

"Manufacturing and retailing should be kept separate; manufacturers

⁵³ Interview programmes 1 and 2

⁵⁴ Pilot questionnaire

should either own all their outlets outright, or ensure that they all receive exactly the same treatment."

Dealer planning director, volume manufacturer, UK
(Interview programme 2)

Others thought that branch dealers should be outlawed, something which some of the manufacturer respondents protested would be an unfair restriction of practice, with one national federation reckoning that some manufacturers operated branch dealerships purely as a means of channelling their fleet sales to their best advantage. Many manufacturer representatives interviewed maintained that they would rather not operate dealerships if they could avoid doing so, as retailing is not their area of expertise and as such is a distraction from the business of making cars.⁵⁵

"Our philosophy has been that we do not believe we know the retailing business, and that we should consequently concentrate on the manufacturing and wholesaling business."

Distribution strategies manager, global volume
manufacturer (Interview programme 1)

However, as dealer profits are squeezed still further, as the competition in the marketplace becomes ever fiercer, and as lean production and distribution together increase integration and strengthen the links between manufacturer and dealer, with the dealer becoming the first stage in the production process, several manufacturer and national distributor interviewees wondered whether increased manufacturer ownership of dealers would become an inevitability in the longer term as shall be illustrated in the next chapter. One new arrival in the UK market has already followed this route, albeit at great expense, and some respondents found it hard to imagine how other new arrivals would be able to attract independent dealers in expensive urban areas in the future, forcing them down the path of branch selling.⁵⁶

⁵⁵ Interview programmes 1 and 2

⁵⁶ Interview programmes 1 and 2

6-3-7 MULTIFRANCHISING

The multifranchising format was much debated by the fieldwork respondents, particularly in the UK. The advantages mentioned by respondents centred around the potential for the format to improve dealer profitability by developing dealer skills and expertise and also by having a site that will be a larger draw for the consumers.⁵⁷ Several of the UK dealer questionnaire respondents, and particularly the smaller ones, commented that, because of the ever-increasing financial demands they face in the implementation of their manufacturers' wishes, a move to multi-marque distribution may be the only way they will be able to remain financially viable in the future. Dealers in the French market, where multifranchising is less common, were more circumspect; whilst many reckoned that multifranchising would become a major factor, few seemed keen to consider the possibility of their taking on another brand in the short term. Generally, the Paris dealers were more progressive than their rural counterparts in this respect, but it should be remembered that the dealers surveyed represented the two domestic French manufacturers, and are therefore the least likely to need to consider multifranchising.⁵⁸ Even the manufacturers interviewed acknowledged, albeit sometimes reluctantly, that allowing their dealers to become multifranchise would be in their interest if it meant that the dealer would be stronger and more successful as a result.⁵⁹

The major disadvantages mentioned included the additional cost burden for the dealer in terms of taking on extra staff (manufacturers insist that the sales and service staff are dedicated to one make only) and having to invest in new repair equipment, dedicated computer terminals, etc. Small dealers reckoned that the investment would be beyond their means, and the rewards potentially minimal.⁶⁰

"Some of my salesmen here struggle to sell one make, let alone more than one."

Dealer principal, UK (Interview programme 2)

One of the UK trade federation representatives backed this up, saying some small dealers might be able to sell the space at their premises that would be freed up as a result both of the removal of stock as their manufacturer adopts lean supply and stocking systems and

⁵⁷ Interview programme 2

⁵⁸ Pilot questionnaire

⁵⁹ Interview programmes 1 and 2

⁶⁰ Pilot questionnaire and Interview programme 2

also of a review of their facilities (now that cars are more reliable and require less servicing, fewer bays are needed). It was thought that this might prove to be a better option for them than taking on another brand. Otherwise, this land could be put to a new use, such as a dedicated used car operation.⁶¹

"It is hard enough for us to understand the idiosyncrasies of one manufacturer, let alone us having to learn to live with another."

UK main dealer (Interview programme 2)

Both dealer and manufacturer respondents of the final interview programme wondered how multifranchising could be reconciled with the idea of the two parties working together in a closer partnership. Would the manufacturer withhold information from the dealer lest it got passed on to the 'other' manufacturer? Would the dealer be able to play one manufacturer off against the other in an attempt to gain favourable trading terms? Whilst these concerns were voiced, and left largely unanswered, at a theoretical level, none of the respondents could name any particular instances of their having come to pass in reality.

The interviewees who did not favour the development of dedicated multifranchise sites nevertheless admitted that the dealer businesses of most towns in the UK tend to resemble an unofficial special car trading area. Because of the cost of land in town centres and the restrictions on noise and emissions in these areas, dealers now tend to be grouped together along main roads at the outskirts of towns, forming a kind of 'motor alley'. This benefits customers, who have the possibility of visiting a number of dealers within a short space of time, and also the dealers, who have a greater chance of being visited by a consumer 'on the off-chance'.⁶² One step on from this are the dedicated 'autoparks' trading areas being built by some property developers in the UK, a form of 'motor alley' in a designated industrial estate. Here, respondents were less favourable, reckoning that the consumers might not respond well to the prospect of buying cars at a kind of 'regional shopping centre'. Two final interview respondents thought that the autopark would need to contain something special to draw the consumers in from a wide distance, and even then the suspicion would remain that consumers would only browse at such facilities, possibly obtaining quotations which they would then go home and ask their local dealer to match. Few would want to buy from a dealer located many miles from their home, as the distances required to take the car to be serviced or repaired would be unacceptable.

⁶¹ Interview programme 2

⁶² Interview programme 2

6-3-8 'SUPERMARKET' SELLING

Survey and interview respondents were asked about the potential for the 'supermarket-style' selling of cars, much advocated by consumer groups, which would see different makes competing directly with others of the same type at large-scale outlets.⁶³ There was little support for the concept, with only 8.6% of the UK dealer pilot survey respondents backing it as a viable option. The rest thought that it was too extreme, and also that the degree of specialisation needed by a car dealer nowadays is such that it could not be easily acquired by new actors entering the sector and attempting to offer many different makes of car. Several dealers commented that customers prefer, and indeed need to be able to differentiate between the different makes of car and service packages on offer, and that they would therefore be uneasy with large-scale multi-marque selling.

"Customers would be frightened of total multi-marque retailing in cars."

Pilot interview with policy director of UK trade
federation

The respondents also identified other disadvantages of the car supermarket option; because of space limitations, they would only be able to stock a limited range of products (to stock the whole of even one manufacturer's range would require an enormous site), leading to cherry picking by these retailers.⁶⁴ In the long run, this would mean that it would become untenable for the manufacturers to continue to produce full model ranges. The sites would require enormous investments in service equipment and facilities if they were to be able to support the products effectively. Furthermore, as has been touched on already, they pointed out that supermarket economies of scale come from being able to push down production costs, not through any inherently lower operating costs; with producer prices in cars being constant, customers would therefore be unlikely to get dramatically lower retail prices. Distribution costs would inevitably rise if manufacturers had to retain 'shelf space' against opposition makes at such sites through heavy advertising.⁶⁵ Finally, these supermarkets would cluster in major market areas, driving out smaller retailers and causing customers to have to travel further. The decline of the small independent operations would most likely lead to local monopoly situations of higher margins and increased consumer prices.

⁶³ Pilot questionnaire and Interview programme 2

⁶⁴ Interview programme 2

⁶⁵ Interview programme 2

"The manufacturer is trying to create an individual personality and proposition for the product, and personal service for the consumer; together an unique environment, which would be totally incompatible with the supermarket format."

Chief Executive, manufacturer-owned national distributor (Interview programme 2)

So, any significant moves away from the franchised dealer format were dismissed by nearly all the respondents,⁶⁶ even though other actors, including the consumer groups, continue to push the idea as a viable alternative. The overriding impression from the wider secondary research phase⁶⁷ is that this matter is not as closed as the manufacturers would like it to be. Ideas were thus sought in the final interview programme concerning how the current system could be further optimised, or indeed, customised. Considerable support was expressed for the possibility of strongly differentiated approaches depending on the type or size of the manufacturer concerned. Some interview respondents suggested that it will only be the manufacturers who can give their dealers a sufficient business opportunity who will be able to insist that they remain exclusive, the others will be obliged to accept the fact that their dealers will need to be multifranchise to survive. The consensus was that the manufacturers in the former category would include the best of the specialist makes and the biggest of the volume players.

"The luxury end of the market will continue to have stand-alone dealerships; the customers are happy to pay a premium price for a premium brand and premium levels of service. This is like the difference between shopping at expensive designer outlets in Knightsbridge or going to Marks and Spencer's, where the whole range of clothes is stocked at a reasonable price. The customer is paying the higher price for these cars, so they have a right to expect some segregation."

Director, publicly-owned dealer group, UK (Interview programme 2)

This is probably accurate, but for the volume players the situation is not so clear cut. One volume manufacturer interviewed insists on exclusivity at all its main dealer sites across Europe; this is successful in the UK where it has a very strong market position, but by its

⁶⁶ Pilot questionnaire and Interview programme 2

⁶⁷ See section 2-3-5-2

own admission, in markets where its share is smaller, this policy means that its exclusive sites are not always in the ideal location or as profitable as it would wish.⁶⁸

One further option considered during the final interview programme was pure franchising, a situation under which the manufacturers would issue very stringent conditions, and all the dealerships would be essentially identical, with no distinguishing dealer signage. It is interesting to note that several manufacturers insist on this latter point, with a number of dealers just named after the town where they are located ('Citroën Birmingham'). This franchising option has been outlawed under the current Block Exemption,⁶⁹ but one of the trade federations interviewed insisted that this was an unlawful restriction on practice and had been inserted into the new regulation without consultation. They also commented that several makes might be interested in experimenting with this retailing form if it became permissible again. Generally, the respondents were at best lukewarm on this idea, and wondered how attractive it would be for the consumer. One interviewee commented that customers felt reassured that all cheap roadside motor hotels belonging to the same chain would be identically equipped and laid out, but that this was not what was expected of a car dealer, where the local touch is often essential. On the other hand however, the manufacturer representatives interviewed were very wary of the other extreme; namely of the dealer groups starting to build up their own brand images in the minds of the consumers to the detriment of the manufacturer's brand. Some respondents predicted that some of the manufacturers might well respond to the suspicion that more and more of the market was coming under the control of the dealer groups by moving to branch dealerships.⁷⁰

One final alternative that came to light throughout the fieldwork concerns the potential for a different approach to car dealing depending on the population density and manufacturer penetration of the local area. Only one of the French dealer pilot survey respondents really took the trouble to acknowledge the very different circumstances facing metropolitan and provincial dealers, and to come up with a prediction that the sector might well fragment in the future into different solutions for different population densities, but the UK dealers were more forward-thinking, with a number of them writing comments to the effect that the manufacturers might, quite apart from legislative pressure, have to become more lenient towards dual or triple franchise operations in the future, especially in rural areas where the low-volume dealers are coming under increasing pressure, but where their survival is essential for a manufacturer wishing to maintain the geographical coverage of their network.⁷¹

⁶⁸ Interview programme 1. This practice is now outlawed under the new block exemption regulation.

⁶⁹ Official Journal of the European Communities, No. L 145/25, 29/06/1995

⁷⁰ Interview programme 2

⁷¹ Pilot questionnaire

In summary, the majority of manufacturer and dealer respondents maintained that, in an ideal world, maintenance of the exclusive dealer system would be the best solution, as they thought that consumers show a strong preference for the small, stable, independently-owned dealer, and in return the dealer is protected by the territorial exclusivity they enjoy.⁷² Multifranchising has, however, emerged as an option and group ownership as an inevitability because of the lack of profitability smaller dealers are now confronted with, and many dealers commented that they would be careful to choose manufacturers with complementary instead of competing model ranges to represent. This issue of dealer profitability is one that appears set to continue to play a major role in the reshaping of the sector; some respondents related this topic to wider issues affecting them, and commented on how this inevitable structural change was being accelerated not only by the progress of the product itself, meaning the reduction in service profitability caused by modern cars not needing to be serviced so often, but also by some of the activities of the manufacturers, particularly the direct sales to company fleets at large discounts.⁷³ Respondents from manufacturers, dealers and other chain actors all remained typically sceptical of the prospects of new retail actors entering the industry, even if the Block Exemption is not renewed again in 2002, as they would find that the system in place is actually the most suitable, and furthermore, coming from other sectors of commerce, would find the profit margins currently available in cars unacceptably low. However, they all accepted that car retailing structures are already in the process of fragmenting into a myriad of different formats as all involved attempt to improve the quality and efficiency of the link to the consumer.⁷⁴

6-3-9 DISTRIBUTION CHAIN RELATIONSHIPS

The common factor between all of these issues and trends outlined above is their dependence on the quality of the relationship between manufacturer, national distributor and dealer. This was one of the central predictions to emerge from the literature, namely that, despite the growing importance of direct contact with the marketplace and some of the integrating features of lean distribution, manufacturers will need to enter into more partnerial relations with their distribution chain actors if they wish to reach the optimal

⁷² Pilot questionnaire and Interview programmes 1 and 2

⁷³ Interview programmes 1 and 2

⁷⁴ Interview programmes 1 and 2; also some comments from the pilot questionnaire

strategy for the future.⁷⁵ The fieldwork, both in the pilot survey and interview stages, therefore devoted attention to investigating whether respondents thought this relationship was indeed changing, and if so, how.

More than half (58%) of the French dealer questionnaire respondents thought that they now had less control over the day-to-day running of their dealership than in the past as a result of the manufacturers strengthening their influence, and only a third of them actually thought that the manufacturers were now paying more attention to the needs and concerns of their dealers than they used to. The rest thought that nothing had changed, with some commenting that this was despite many promises they had received that things would improve.⁷⁶ During the interviews, a dealer of a franchise that has recently been enjoying an upturn on fortunes after a long slow period commented on how the company headquarters had suddenly become far more receptive to the needs and wishes expressed by its UK national distributor. Several dealers commented that, despite significant improvements in recent times, their national distributor and company headquarters still seem to listen, but not to hear what they are saying, with the result that they are still presented with policy decisions which affect their operations, but without their ever having been consulted during the formulation.⁷⁷

Respondents were also asked about other forms of dialogue between manufacturers and dealers, such as dealer councils and trade federations. Respondents from both ends of the chain were often enthusiastic about their dealer councils, many of which now operate in co-decision structures with the manufacturer. One national distributor called their system "*our shadow government*" and several dealer groups reported that the presence of the branch dealers in the council was a step forward in improving the relationship and proving to the smaller dealers that they were not receiving inferior treatment. Two dealer group respondents commented that their dealer councils for their franchises were dominated by the branch outlets, with the result that the interests of the smallest dealers were not sufficiently considered, but the general consensus was that the introduction of more democratic decision-making structures including councils had been possibly the most significant step forward in improving manufacturer - dealer relations over the last few years.⁷⁸

⁷⁵ See section 3-3-4

⁷⁶ Pilot questionnaire

⁷⁷ Interview programmes 1 and 2

⁷⁸ Interview programme 2

6-3-10 PARTNERSHIP AND CONTROL

The pilot survey asked dealers to evaluate further this potential for closer working partnerships within the predicted context of increased manufacturer control over the distribution chain and as a result of developments such as integrated supply and stocking systems. The majority of dealers saw an increase in direct involvement and control by the manufacturers over their distributors as inevitable, especially given the levels of investment in dealer facilities and customer service that are now required. As might be expected, the larger dealers were more convinced that they would be able to maintain or increase their status vis-à-vis the manufacturers. The dealers were split into a majority, who thought that manufacturers had finally realised the need to have a successful and strong dealer network as the only means to retain, let alone to increase, market share, and who therefore think that some form of partnership will play a part in the future, and the rest who were more sceptical, considering that partnerships will only ever operate when it suits the interests of the manufacturers, something they could not foresee happening for the moment, particularly given the current system, which some likened to a 'dictatorship'.⁷⁹

The issue was then examined in more depth during the interview programmes. Several respondents here suggested that, in the short term at least, the manufacturers who reduced the number of their dealers and succeeded in keeping them exclusive would increase their control, but this would be balanced out as these dealers started to make money and to work more closely with the manufacturers, at which point a partnership style would be able to emerge. Another respondent backed up the point made about market share by commenting that the quality of the relationship will vary significantly according to how well that particular make is selling in the marketplace.⁸⁰

"In good times, the value of the franchise increases, so the risk for the dealer in walking away is higher. Therefore manufacturers are more able to oppose their dealers who want to take on another franchise. In hard times, the value of the franchise falls, and the power balance shifts in favour of the retailer as the manufacturers rely on them for their sales; this is when the good retailers become better in the eyes of the manufacturer."

Chief Executive, UK trade federation (Interview programme 2)

⁷⁹

Pilot questionnaire

⁸⁰

Interview programmes 1 and 2

Many also insisted that it should be the manufacturers' responsibility to improve the dealer relationship by helping to restore some profitability into their operations; profit targets and efficiency improvements for the dealers should be permanently on the manufacturers' agenda. Others suggested that greater regional decision-making autonomy for the sub-units of the national distributors and manufacturers might help, as this level in the chain is, when present, much closer to the dealers on the ground.⁸¹

Much debate arose here surrounding the future shape of the manufacturer - dealer contract, especially as these agreements were then in the process of being rewritten to comply with the new Block Exemption.⁸² One trade federation thought that, if the manufacturers were serious about forming partnerships with their dealers, they should move to open-ended as opposed to fixed term agreements. The respondent saw this as part of reducing as much as possible the entry and exit costs for dealers of holding a franchise. A potentially greater turnover of dealers and franchises changing hands more often would, in his view, be a good thing from the dealers' perspective, as it would teach the manufacturers to respect them more. If the system were truly lean and efficient, there should therefore be no need for long term contracts, as the good dealers would be able to shop around until they found the best manufacturer to work with for the sake of satisfying the needs of their local market. However, he thought it unlikely that the manufacturers would be happy with such a scenario, as stability is seen by them as absolutely essential for the building-up of trust between the two parties.⁸³ Furthermore, many respondents from the manufacturers mentioned that, in order for them to protect their brand, they have to retain the ability to terminate their dealer's contracts if they fail to meet pre-agreed conditions.⁸⁴ Ultimately, the best solution would appear to be a compromise between the two extremes, and a system or contract which ensures that the manufacturer cannot obstruct a dealer from seeking a better or complementary business opportunity if their full potential is not being realised with the current franchise, whilst at the same time affording the manufacturer a degree of stability and protection from seeing its territorial coverage fluctuating beyond its control.

⁸¹ Interview programme 1

⁸² See section 2-5-3

⁸³ Interview programme 2

⁸⁴ Interview programmes 1 and 2

"The dealer agreement should reflect the quality of the relationship between manufacturers and dealers. The manufacturers have a right to expect to have good dealers, and a dealer has a right to be well-supplied and cared for by the manufacturer."

Policy director, UK trade federation (Interview programme 2)

This was indeed the emerging trend, at least as far as the UK-based respondents were concerned.⁸⁵ As the selling process and the quality of the information flow back to the manufacturer become ever more vital, the skills, financial solidity and overall quality of the dealer come into focus. The reduction in dealer numbers and the enlargement of territories should lead to stronger, more skilled dealers, who will really be able to work with their manufacturer; closer partnerships should thus develop as a result. There is also no real reason to doubt that this development will spread, at least to the other major car markets of Europe. However, none of the respondents could fully reconcile this scenario with the growth of multifranchising and group ownership of a portfolio of franchises; the suspicion still remains that both multifranchise dealer and manufacturer would have things they would wish to withhold from the other in such a relationship.⁸⁶ For all the promises and shared objectives, the gap between the producers and sellers of cars seems still to be a wide one.

6-4 SELLING AND MARKETING ACTIVITIES

This section examines the area of selling, marketing activities and customer contact. It opens with a synthesis of the manufacturer- and national distributor-level material, and then goes on to consider the issues that emerged from the dealers' perspective.

⁸⁵ Interview programmes 1 and 2

⁸⁶ Interview programmes 1 and 2

6-4-1 MARKETING ACTIVITIES

The fieldwork programme quickly confirmed the problematic nature of trying to organise marketing activities across the European market. Two respondents pointed to the lack of a unified legislative base and to the myriad of local market characteristics and consumer habits and consequently dismissed all attempts at pan-European coordination as doomed to failure.⁸⁷

"Marketing cannot be fulfilled on a Europe-wide basis; it will be another 30-40 years before Europe is sufficiently established for this."

Chairman, manufacturer-owned national distributor
(Interview programme 1)

Other companies, however, said the exact opposite but admitted that this might not be in the traditional sense of perceiving 'pan-European' as involving one single integrated approach across the whole of the territory.

6-4-1-1 MORE CENTRAL INVOLVEMENT IN AND CONTROL OVER BRAND AND PRODUCT IMAGE

One trend observed here from the interviews was that the manufacturers; not just the specialist manufacturers for whom consistency is arguably easier to achieve, but the volume producers as well, are exerting a greater influence in and control over their overall brand and product range image across Europe. It was considered that this has become an inevitability not necessarily because the European consumers are now more receptive to such approaches, but because of the institutional stability and maturity of the marketplace.⁸⁸ Manufacturer respondents commented that, whilst their companies have realised and accepted the fact that their company history in each market means that the products will be perceived differently there, they are nevertheless trying to ensure that the company message projected in each area is as consistent as possible. This was confirmed by the respondents connected with the Japanese companies, who thought that these manufacturers are now able to take advantage of their European coordination centres to

⁸⁷ Interview programme 1

⁸⁸ Interview programme 1

gain an overall perspective on the European market and the strategic approach that is needed, something which therefore appears to be harder for the domestic companies which are more tightly bound to the culture and history of their home market, and which possibly have a stronger sense of inertia within their own distribution chains.

6-4-1-2 A REDUCTION IN DUPLICATION AND SUPERFLUITY IN MARKETING ACTIVITIES

One result of this increased attention has been attempts by companies to harmonise elements of marketing activity wherever possible, with the aim of reducing duplication and superfluity in campaigns across Europe.

"Our ambition is to reduce the amount of unnecessary additional work involved in the creation of a marketing campaign for the European market."

Director of European dealer operations, volume manufacturer, UK (Interview programme 1)

Manufacturer and national distributor respondents confirmed that this has led to certain activities being shared between markets, and with others being produced centrally for common use wherever possible. One pointed out that this increase in central development work may mean that the manufacturers are spending more 'up front' on a specific campaign, but they then are able to reap the benefits of not having to duplicate things numerous times in the markets. Trends observed in this area during the interviews included:

- Companies moving to reduce as much as possible the number of different films, both for television advertising and for training, shot for the European market.
- The rationalisation of the number of advertising agencies used, including dealing with European networks of agencies.
- The sharing of market intelligence between markets wherever possible.
- Moves to achieve economy of scale benefits by conducting media buying centrally, although for many companies, the benefits of this latter tactic appear to be marginal given the lack of homogeneity of the European media, restricting the room for manoeuvre of each national level.
- Companies trying to ensure a greater consistency in new model launches, with the

aim of achieving as uniform an image as possible across Europe at the start of the car's life.

- More central coordination of direct marketing tactics, which look set to increase in all markets as the more traditional methods, such as television and print advertising, lose their effectiveness.⁸⁹

The key to bringing marketing activities as close together as possible whilst still respecting and responding to the needs and preferences of each local market would therefore seem to be ensuring the quality of the dialogue and the information flow both between the manufacturer, national distributors and dealers and also amongst the national distributors and dealers themselves (*Assemblée Nationale*, 1992). Some respondents reckoned that this is the area in which the European coordination centres of the Japanese manufacturers have a real potential to add value, and could provide not only a supranational perspective on the large internal market, but also a forum that could establish a culture of dialogue amongst the national and regional sub-units, free from the home market bias which dominates many manufacturers.⁹⁰

However, interviewees pointed out that, even if the manufacturer headquarters now benefits from vastly improved access to market intelligence thanks to the improvement in information systems, there is still no substitute for the national distributor's and dealer's final local market knowledge in the marketing area.⁹¹ It seems logical that this knowledge will only increase in importance as a particular model range gets older, as these levels will have detailed knowledge of the car's fortunes in that market, and therefore of what is needed in marketing terms in order to sustain its sales.

So, there was consensus that, as changes to supply and stocking systems are starting to reduce the stock-push pressure on dealers to 'move the metal', so the nature of marketing is slowly evolving away from price-led local campaigns towards more image-led national and regional campaigns aimed at advance order generation and customer retention for after-sales business and repeat sales.⁹²

⁸⁹ Interview programme 1

⁹⁰ Interview programme 1

⁹¹ Interview programme 1

⁹² Interview programmes 1 and 2

6-4-2 THE DEALERS' PERSPECTIVE

In the pilot survey, dealers were asked to assess the balance of power between themselves and their manufacturers concerning the marketing and promotional activities they conducted, with the aim of discovering how the local and corporate levels interacted. Are the strategies that are decided nationally always suitable for the dealers and their territories? Are the dealers frustrated by the lack of room for them to develop local initiatives, or are they happy to be presented with complete marketing packages that have not cost them anything to develop?

In general, the UK respondents appeared to be happy with their current levels of freedom to manage their marketing and promotional activity within their allocated territory. When asked what they thought could be improved, the most common mentions included a greater involvement for the dealers over the content of national advertising campaigns, particularly where new model launches were concerned, in response to the need perceived by dealers to tailor the launch programmes so that they are better suited to the specific local market needs of a particular region.

"We would like to have more influence over the launch programmes for new cars through our dealership. We would like to choose the models for the launch, and also to have better prior information on the launch so that it can be better coordinated with other local activities."

Succursale, Paris⁹³ (Pilot questionnaire)

Pilot dealer survey respondents were asked to assess the effects on customer loyalty of recent sectoral developments. Comments from the UK dealers pointed to a split between rural and urban dealerships. Rural garages tended to have a much more stable and loyal customer base, many of whom have been purchasing cars from that particular garage over many generations. Hence these customers are more loyal to the dealership than they are to the makes of car it offers, and some dealers commented that their customers would buy from them almost regardless of which manufacturer they represented. This contrasts with urban dealerships selling much larger volumes, where the customers are more likely to know in advance the make and model of car they wish to buy, and who therefore shop around at various dealers in the area in search of the best deal. A rural French dealer pointed out that the customer's essential loyalty in a country area is to the person who repairs the car, and a Paris counterpart reckoned that it is harder for a dealer to build up

⁹³

A *succursale* is a branch dealership.

customer loyalty in the capital because of the ease with which customers can switch dealers. Whilst this is largely logical and self-evident, it does raise the question of whether manufacturers should operate a more differentiated strategy for urban and rural areas, as customer needs and expectations appear to be very different in each.⁹⁴

6-4-3 SELLING STRATEGIES

6-4-3-1 VOLUME DISCOUNTS AND DIRECT SALES

One further scenario concerning car supply was put to the respondents in the interview programmes; this concerned the potential for a volume discount for car sellers. In every other area of retailing, volume discounts are offered relative to the size of the purchase; why could this not happen for cars? The respondents were unanimous in confirming the logic of this suggestion, but equally convinced that its introduction would destroy the franchised dealer system as it operated today. Volume discounts would cause the dealer groups to grow rapidly, further concentrating the sector, and making complete territorial coverage impossible to maintain. Respondents pointed out that this would not be in the manufacturers' interests at a time when they are trying to limit group ownership of their franchises; nor would it be in the consumers' interests as it would lead to local monopolies with high prices and high margins.⁹⁵

"The industry as it is today could not continue to function if selected groups gained more buying power than the rest of the network."

Director, publicly-owned dealer group, UK (Interview programme 2)

However, particularly in the UK market, this is effectively precisely what is happening in the case of direct sales conducted from manufacturers or national distributors to major fleet customers, who are reputed to receive significant price discounts. A great deal of debate has surrounded this issue; it has been widely reported that private car buyers are having to

⁹⁴ Pilot questionnaire

⁹⁵ Interview programmes 1 and 2

compensate for these volume discounts in the form of higher prices than they would otherwise expect to pay⁹⁶ (National Consumer Council, 1990). This suspicion in itself has been enough to damage private new car sales, with one interviewee claiming that the recent rising trend in new car sales in the UK is entirely due to the growth in the fleet market and therefore in direct sales as opposed to private purchases.⁹⁷ Even if the actual number of cars accounted for by direct sales is debatable, all the interview respondents confirmed that the issue is a very major concern, and has grown to the point where major fleet operators now expect to deal directly with the manufacturer and receive a significant discount as a matter of course. As the regular custom is there, and as these sales represent a means of keeping the cars flowing out of the factory gates, the manufacturers are not going to give them up overnight.

"Direct sales are like a drug; the manufacturers have become dependent on them."

Chief Executive, privately-owned dealer group, UK
(Interview programme 2)

Many of the manufacturers have seemingly come to terms with the fact that opposition to these sales from their dealers and others is not about to go away, and so they have resolved to improve matters. Respondents confirmed that one major step towards reducing friction surrounding direct sales and branch dealerships is for them to be more open in their dealings with these operations, demonstrating to the rest of the network that special favours are not being granted.⁹⁸

"We try not to work behind closed doors and in secrecy any more."

Sales director, manufacturer-owned national distributor,
UK (Interview programme 2)

Most respondents were understandably unwilling to comment on the possibility of one manufacturer breaking ranks and starting to sell cars directly to private buyers ...⁹⁹

⁹⁶ Car Magazine, July 1991

⁹⁷ Interview programme 2

⁹⁸ Interview programme 2

⁹⁹ Interview programme 2

6-4-3-2 FIXED PRICE SELLING

The UK dealer questionnaire respondents confirmed that the trend for franchised dealers is now firmly in the direction of fixed-price 'no-haggle' selling, and that discounting, the 'self-imposed curse' of the trade, is practically a thing of the past. However, they see this tactic being perpetuated by the manufacturers themselves, in the guise of direct selling to fleet and other large volume customers. They pointed out that it is unfair for dealers to have to cut even further into their slim margins to continue to offer discounts or reasonable trade-ins to private customers whilst at the same time fleet customers are reputedly getting discounts of up to 40% by buying direct from the manufacturer. Many interview respondents reported that customer satisfaction had risen significantly as a result of reducing this reputedly unpleasant aspect of the buying process as much as possible. However, others pointed out a number of problems in this area, particularly the need for manufacturers and dealers to be able to respond to both unexpected fluctuations and seasonal cyclicality in the market (for which price is often the most appropriate weapon) and also the need for dealers to be able to negotiate trade-in prices with customers (particularly when they claim to have been offered a better deal elsewhere).¹⁰⁰ The overall impression here was that the manufacturer respondents' companies were publicly in favour of moves towards fixed-price selling, but maybe not quite so convinced privately.

6-4-3-3 EVOLUTION OF SELLING STYLES

There was almost universal agreement amongst both pilot survey and interview respondents that the customer's actual car buying experience was changing for the better, and that this was as a direct result of moves to drive distribution chains in a customer-pull rather than in a stock-push fashion.

The reduction in stock-push pressure in certain chains was slowly leading to a different, less 'pushy' selling style on the part of salesmen, which immediately helped to mitigate possibly the most commonly cited reason for customer dissatisfaction with the buying process. This was being accompanied by moves to motivate selling staff to work towards longer term customer relationships rather than just to meet a sales target by replacing their

¹⁰⁰

Interview programme 2

traditional commission-based wages with a proper salaries and by expanding the roles they fulfil within the dealership. Many reported that the task of changing the mindset of ‘died in the wool’ car salespeople was a slow one, particularly given the character that many of them needed to have in order to be successful in their traditional role, but that the benefits in terms of customer satisfaction were well worth the effort.¹⁰¹

6-5 CONCLUSIONS

This chapter has presented the fieldwork material collected during the pilot surveys and the two interview programmes.

The major themes which emerged included:

- moves underway within the industry to implement more lean-style supply and stocking systems, including changes to physical distribution arrangements, computer systems and product ranges and specifications;
- the emergence of different rates of change in different European markets;
- gradual changes in the role of national sales companies within the distribution chain;
- the emergence of variations to the traditional franchised dealer system, including manufacturer-owned retail outlets, the growth of large dealer groups, multifranchising and the rethinking by manufacturers and dealers of territorial coverage;
- changes to, and in some cases, improvements in the nature of relations throughout the chain
- the growth of more consumer-friendly marketing and selling techniques.

Many of these themes will be combined with the insights gained from the two case studies presented in the next chapter and explored further in the development and subsequent testing of the research model in Chapter 8.

¹⁰¹

Interview programme 2

CHAPTER 7

CASE STUDIES

"The greatest enemy of the car is the ship. Had no manufacturer ever begun to export, none would have ever dared to make as well as market abroad, and we should all be happy with locally made cars which suit our own localities."

LJK Setright, Car Magazine, November 1995

7-1 INTRODUCTION

This chapter presents the case studies carried out for the research; Rover's Distribution Efficiency programme and Daewoo's arrival in the UK market.

For the sake of brevity, both are distilled from a wide range of interesting material available and, in the case of Rover, from discussions, to cover the essential points relevant to the research agenda.

7-2 ROVER'S DISTRIBUTION EFFICIENCY PROGRAMME

7-2-1 INTRODUCTION

Developments at the Rover group are being watched by the rest of the industry with considerable interest, and this not just because of their turbulent recent history up to and including their 'marriage' to BMW, but particularly because despite this backdrop of uncertainty, the company has continued to push ahead with an innovative programme to rationalise and improve the efficiency of the supply and stocking activities in their distribution chain, initially in the UK, and subsequently across their major European markets. The programme contains many of the elements associated with lean distribution that emerged through both the primary and the secondary research phases, and so constitutes a prime case for a more in-depth investigation.

As was mentioned in the research methodology, this case study was assembled from discussions with Peter Bailey, one of the key 'lean thinkers' behind the programme at Rover, who related the story behind Rover's moves to lean distribution and gave a frank

assessment of its successes, failures and future prospects. Further input came from another senior-level distribution manager at Rover interviewed for the 'National Distributors' project. Additional secondary material was sourced from Peter Bailey's chapter "*The Evolution of Rover's Distribution Logistics*" in "*Internationales Automobilmarketing*"¹, as well as from ICDP material² and industry news sources.³

7-2-2 A STOCK-PUSH STARTING POINT

Like so many other manufacturers, Rover's distribution chain was traditionally dominated by a wholesale-push philosophy. 90% of customer orders were fulfilled through dealer stock, meaning that true customer preferences were not known either to the dealer or to the manufacturer; the system operated on the premise that stock pressure on the dealers was sufficient to ensure that they would find customers for the vehicles being produced. Production plans were therefore based on inaccurate medium term sales forecasts, which were themselves based on dealer order 'guesses'. During the late 1980s, this situation became exacerbated in the UK as Rover's market share came under pressure, leading to the dealers being unwilling to over-order their cars, which also led to different stocking policies, distortions in stock coverage across the market and therefore ageing problems. If a customer really wanted to place a specific order, they would have to wait 12 weeks for their car to be built and delivered.

Whilst similar supply and stocking arrangements were operated for virtually all the other makes in the UK market, Rover was the first to decide that they had to be changed. They realised that the key to future success, or even survival, was being able to give the customer what they wanted when they wanted. Nevertheless, they realised that they faced many problems in modifying their distribution system, not least of which their product range, which spanned small, mass-market cars, luxury models and the Land Rover brand, which was essentially operated in a craft manner, with the vehicles being customised off the production line to suit individual customer requirements.

Rover therefore set out to understand the true nature of the stock-push system they had

¹ Hünérberg, R., Heise, G. and Hoffmeister, M., 1995: "*Internationales Automobilmarketing: Wettbewerbsvorteile durch marktorientierte Unternehmensführung*", Gabler, Wiesbaden

² Generally unpublished as it is company-specific

³ Particularly Automotive News Europe, Automotive Management and Motor Trader

been operating for so long, and to gauge its impact on consumers. They learnt a number of lessons which have now received widespread coverage in the industry and in its literature.⁴ These included the following:

- Manufacturers were operating stock-push to favour the needs of the factory, with retailer bonuses linked to the movement of ageing stock rather than to customer orders taken;
- Delivery suppliers and other actors in the physical distribution chain were load- rather than individual order-driven, meaning that they too lacked a customer focus;
- Dealers were compromising customer choice by pushing them to buy from stock (either theirs or another dealer's). They were also bidding for popular models (even though they had no idea whether they would sell them) just to stop rival dealers getting them. They were also discouraging customers from placing specific factory orders, were selling cars as commodities with ever-increasing discounts, and were devoting a large proportion of their facilities to storing unsold stock. Furthermore, they were highly unprofitable. Rover calculated that roughly 400 main dealers were operating with an average annual cushion of 150 vehicles in their consignment stock, which represented a £500 million investment. These cars accounted for 90% of sales, although 35-40% of them were transferred between dealers at least once before sold (mostly this would mean 2 vehicles moving as the dealer would swap one of his against the car he wanted). These transfers alone were costing the customer and the dealer £100 per sale, and overall unsold stocks accounted for 50% of the dealers' uncovered site space;
- Customers were increasingly dissatisfied with the process, causing some to even postpone their new car purchase or to buy a used car instead.

These lessons were viewed against some of the changes Rover had already introduced in an attempt to make the system function more efficiently, such as introducing amendable 'mirror image' orders into the dealer's wholesale order bank and sale or return conditions, and together this thinking was incorporated into the process of defining the new lean distribution philosophy which was to underpin the new Just-in-Time/Distribution Efficiency programme.

⁴ See section 3-3

7-2-3 THE DISTRIBUTION EFFICIENCY PROGRAMME

The first phase of Rover's Just-in-Time/Distribution Efficiency (JIT/DE) programme was launched in late 1990 with the overall aim of

“combining the inbound aspects of the logistics chain including supplier management with the key outbound-focused, customer-driven elements of product development and distribution.”⁵

This was to be achieved in two phases, both working towards the goal of allowing any customer in Western Europe to be able to order a car and have it delivered within 14 days. Complementary goals to this included:

- offering customers the exact product specifications they want;
- being able to make the customer an acceptable and predictable delivery promise in the showroom;
- ensuring that Rover and its retailers provide clear information to consumers throughout the buying process.

7-2-3-1 PHASE 1

The overriding objective of the first phase of the programme was to remove all planned unsold stock from the dealers and to stop all dealer forward ordering for stock; in other words to turn to a customer order-driven system. This would demand considerable changes in not only in stock management, ordering systems and distribution processes, but also in design, engineering, material procurement and assembly towards a fully integrated chain from dealer to factory. This thinking had been elaborated across many of the traditional functional boundaries within the company, reflecting the idea that the distribution function could no longer operate autonomously, but was instead tightly linked into other areas of operation. Rover considers this breaking of functional boundaries to be a major step towards the creation of an 'extended enterprise' involving all actors in the production and distribution chain. Achieving this cooperation alone was not an easy task. To start with, it

⁵ Hünerberg, R., Heise, G. and Hoffmeister, M., 1995, p.342/3

involved the 3 manufacturing business units, small/medium, large cars (meaning the Rover and MG brands) and Land Rover, all of which have different business rules and systems development. For instance, Land Rover is a business unit in its own right, and has a different production scheduling and MRP system to the cars division.⁶ Within each of these, the programme had to consult with supplier relations staff, production staff, sales and marketing staff and logistics planners amongst many others. Finally, this process involved staff from 2000 dealers of all shapes and sizes. As shall be illustrated, in the second phase this process had to be extended to include staff at the national distributors as well.

Phase 1 was launched in September 1992 in the UK, and between January and December 1995 in Belgium, Holland, Germany, France, Spain and Italy. It introduced significant changes in the stock-based distribution and retailing processes. Inventory was brought under much tighter control, with all stock apart from showroom and demonstrator cars being removed from the dealer to regional distribution centres, where it was managed by Rover for the benefit of all dealers. Straight away, this meant ...

“... setting up different types of order to differentiate between sold, showroom and demonstrator orders and effectively killing, except in extremis, the concept of dealers being able to order volumes of vehicles for stock. The whole thing is a lot more controlled in that way.”

Interview with Peter Bailey

A new ordering system allowed dealers to view what vehicles were on their way through the factory process or were held in the distribution centres, and then place an order for the one that matched their customer's needs.

“The way the dealer actually orders is very important as the front end of the system, how, what and when he can order - how do you let the dealer know what he can order and when? No longer can you tell him 3 months in advance that he can only order this and that - the system needs to be more dynamic - this is what you can order today, this is what your availability is, this is where the car is in the chain.”

Interview with Peter Bailey

⁶ Material Requirements Planning systems, pioneered in the 1970s, provide a computerised means of keeping track of production inventory, ordering materials and sending out instructions on what to make next. For more details, see Womack, J. and Jones, D., 1996.

The benefits of this system were summarised as follows:

- The customer can have a wide choice of factory fresh cars, with minimal wait and with full knowledge of lead time;
- The dealer knows what cars are available at any moment and how long it will take one of them to reach him; they can then plan for customer hand over, and can make more productive use of their space and time;
- The manufacturer can make savings in inventory costs whilst retaining service levels, can tighten stock management disciplines and can move from deferred payment of dealers to rapid payment for sold orders. They also get a better view of true customer demand.

Indeed, elements of this regional stocking and open pipeline approach have been adopted by many other manufacturers in the European market, and the outcomes have been universally successful. However, the Rover programme goes further in that it sees this as merely one step towards the ultimate goal of true build-to-order which is expressed in phase 2. Phase 1 was therefore seen as a preparatory step, an attempt to create the foundations on which the true lean system of the future would be built.

“The ultimate objective relates to a lean, highly reactive, total logistics system, so what Rover was doing in phase 1 was staking out the ground, creating the right environment in advance of the technical capability of being able to deliver what we really wanted to. So, the experiment backed into a lot of existing processes and systems; it was adaptive rather than revolutionary. The end result will be a lot more revolutionary ...”

Interview with Peter Bailey

7-2-3-2 PHASE 2

The more long-term phase of the programme revolves around the implementation of a new computer-based system for manufacturer-supplier-dealer communications. Named ‘Discus’, the system extends from multimedia screens in showrooms to allow customers to explore option and specification combinations, and to take their order right up to the production planning function at the factory if necessary. On the way back down the chain,

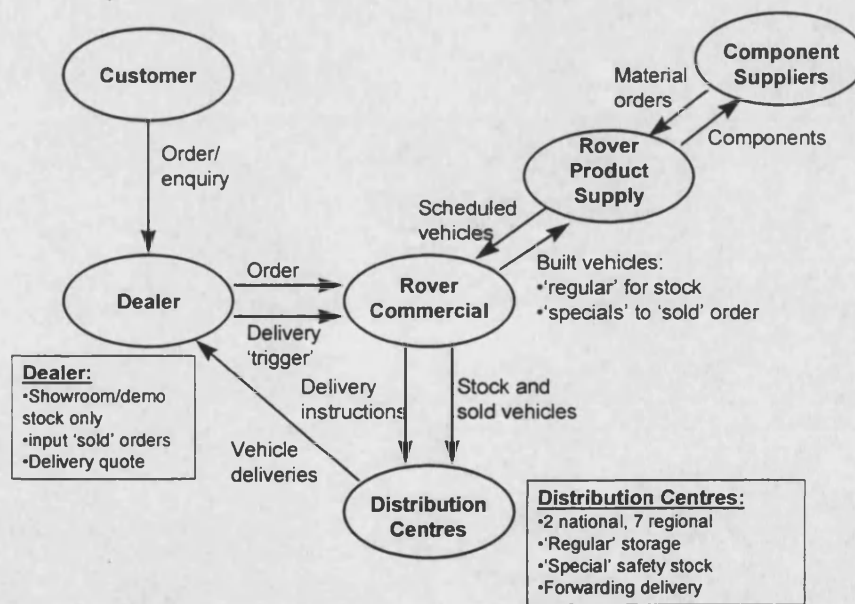
the system interfaces allow the tracking of cars through the logistics stage to provide delivery dates, instructions for distribution centres, shippers, etc. Once fully working, Discus is intended to usher in higher levels of build to order, greater efficiency in the open supply pipelines outlined above and a new selling style based around a 'customers for life' rather than a 'single sale' mentality. Discus systems are currently being introduced across UK dealers, although the whole process is not yet operating fully interactively.

7-2-4 CHANGING THE DISTRIBUTION PROCESS

The following figure summarises Rover's distribution chain in the UK.

Figure 7-1

ROVER'S DISTRIBUTION CHAIN IN THE UK⁷



With the inability to achieve phase 2 objectives overnight, primarily due to the need to further refine the computer technology, Rover and its dealers were concerned that sales volumes would be under threat from high-stock competition if the bulk of specifications normally ordered (the popular colour and trim combinations) could not be delivered

⁷

Source: Hünérberg, R., Heise, G. and Hoffmeister, M., 1995, p.361

quickly from the regional distribution centres to meet customer requirements, so a solution to ease the transitional period was needed. However, holding all the specifications in stock would bring back all the old problems, and using historical sales patterns to assess which models should be produced would be flawed since these figures were generated in the stock-push environment which masked true demand. So, the company used figures for 6 months rather than the more usual 12, and with them built up a list of regular stock items. Sales volumes were measured at model derivative and option combination level; this enabled Rover to define the 20% of specifications which accounted for 80% of sales. This short-list was then put forward to the dealer council for their approval and updated where appropriate. This list would then constitute the number of stocking lines to be produced; the rest of the production would be build to order only. This second category would also constitute a learning exercise for the moves to increase the build to order proportion later on in the programme.

Initially, so as to help build up dealer confidence in the new system, it was also planned that these agreed regular stocks held at distribution centres should be 'tagged' to individual dealers and that other dealers could still negotiate a 'transfer' if they wanted one of these cars. However, it was realised rapidly that this tagging hindered the free movement of stocks to meet customer orders, and so it was phased out after 6 months. 7 regional distribution centres were established for regular stock storage and local forwarding operations. In addition, the ordering system was adapted to give an estimated delivery date against each vehicle enquiry or order depending on the physical status of the vehicle concerned, and a 3 working day delivery guarantee from the distribution centre, whether national or regional, to dealer, was given. In advance of the true 'on-line' system becoming established, the need for delivery information from the distribution centres regarding their stock status was met by a daily Supply Bulletin giving general stock availability and lead times for a week at a time; with this dealers could give indications of delivery dates to consumers.

"If stocks are going to be taken away from the dealers, you need to be able to improve the delivery process, have to be able to start making commitments on the delivery of vehicles from stock and from pipeline that were not done before. There has had to be a lot of focus on how the delivery mechanism works. Saying that vehicles will no longer be wholesaled was a big part of having as open a pipeline as possible, to allow the dealer freedom to order against a definite customer requirement."

Interview with Peter Bailey

So, the new system meant a different set of trading terms between the manufacturer and deliverers and dealers towards one based on partnership, with all parties working together to speed the distribution process to customer at lowest possible cost. The dealers got adjusted payment terms and conditions to reflect the move to sold order supply. There was also an extra contribution built into the wholesale cost of each vehicle to fund the new distribution centre infrastructure. Consignment periods were reduced from 180 to 30 days, with only the limited volume of showroom cars being given extended periods.

Nevertheless, the system needed to remain sufficiently flexible to be able to respond to special events in the model lifecycle, and to fluctuations and cyclicity in the marketplace. This was achieved through stock capacity at the distribution centres, rather than at the dealers, an essential strategy if the dealers were to learn to base their strategies around zero on-site stocks.

"The system is not 100% watertight. Looking at circumstances such as new product run-in and old product run-out, these are situations where you might like to preallocate vehicles to dealers (to get a new car into the showrooms where it will be seen). Also, there are structural things within the business that will dictate periodical stocks (such as the UK annual registration letter change). Now matter how pull-oriented you want to be, you are building into a world of push."

Interview with Peter Bailey

7-2-5 FEEDBACK FROM IMPLEMENTATION IN THE UK

The introduction of the distribution centres and the new delivery infrastructure, the revision of delivery company and dealer trading terms and the establishment of measurement and monitoring systems got underway in September 1992. The revised delivery process took 3 months to stabilise, mainly whilst the new computer system was bedded in. From March 1993 onwards, stocks at distribution centres were no longer tagged to dealers. The multimedia Discus computer-based sales and ordering system was introduced into dealerships during 1995 in readiness for the interactive link with the manufacturing

pipeline. Actual vehicle ordering through Discus now underway, but the system is not yet fully interactive. Results and feedback observed by Rover so far include the following:

- Quoted supply bulletin lead times are being achieved in 90% of cases, and targets are now being set to bring delivery lead times from build down;
- The overall proportion of cars built for customer order has increased from under 10% in 1992 to approximately 30% in 1994. From 1 January to 31 October 1994, 60% of customer sold orders were supplied from distribution centre stocks with the remaining 40% being built to order in an average of 3.9 weeks. Since then, however, these figures have not evolved significantly; this is thought to be a result of continued market pressure in the UK to build products and then to market them aggressively;
- Deliveries from distribution centre stock to dealer take an average of 2.5 days, with a 98% achievement of the 3 day commitment to the dealer;
- Finished vehicle stock turn is up from 4 to 5 times per annum;
- Published CSI⁸ results show average delivery lead times down from 3.9 weeks in Q3 1993 to 2.7 weeks in Q3 1994. 78% of customers took delivery of their new car within 1 month, and only 5% had to wait longer than 8 weeks. More recently, with the introduction of the Discus system and the increase in build to order, it has been very important for the company to prevent customer satisfaction levels from suffering an adverse reaction to the new system; in other words to prevent any short term decline that would result from some customers having to wait a while longer for their car which was not available from stock. At the same time, the company was in the process of launching a raft of new models, all of which would be initially in short supply, so they was concerned that people might be dissatisfied with the delivery times; they hoped that their long term intentions for the system as a whole would not create short term ordering dissatisfaction until it became fully established. The initial outcome of this will not be known until complete figures for 1996 are available some time into 1997, and the careful monitoring by Rover of dealer and customer satisfaction with the delivery process will therefore continue to be a key activity in the development of the system;
- Following the introduction of the first elements of change, the ranking of Rover dealers' satisfaction in Sewell's Dealer Attitude Survey up from 15th place in 1992 to 2nd place behind BMW in 1993;

"In 1992, all the dealers thought that the company was mad. Now they admit they were stupid to fight the changes, and want the perfect system - rapid build to order from scratch - yesterday. However,

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Customer Satisfaction Index, a popular measure used by the industry to assess the efficiency and effectiveness of a make's dealer network.

achieving this relates to the way the product is engineered from its inception, and so will take a number of product generations to refine fully."

Interview with Peter Bailey

- The dealers have also apparently been very pleased with the new Discus system, which they find much easier than the old system. All they have to do is choose the model a list, look up the options and trim combinations, etc. compared to the old system under which they had to know in advance what they were allowed to order, then they had to look up lengthy product codes and insert them into the relevant boxes, with a significant potential for errors creeping in;

7-2-6 FEEDBACK FROM IMPLEMENTATION IN EUROPE

The first phase of the programme, including all the basic elements of the UK approach but with some detail differences, was implemented between January and December 1995 in Belgium, Holland, Germany, France, Spain and Italy. Peter Bailey and Rover feel that it is still too early to be able to draw any firm conclusions from this process, although several immediate points of interest emerged during discussions for this research:

- The position of the wholly-owned national distributors under the new system is evolving into one of managing supply by exception rather than one of preallocating cars to dealers by whatever means possible. The dealer makes the order choice and presses the button on his computer; he then knows straightaway whether the vehicle is in the supply pipeline and where it is, and is then given a delivery date. If the vehicle is not in the pipeline, the dealer can still place a build order and get an estimated date. It was emphasised that the continental dealer is given the delivery date commitment the moment he confirms the order, so even though the order might not run through the UK computer until the early hours of the following morning, the commitment is already locked in place. The number of order duplications and other problems due to computer systems failure has been minimal;

"The national sales companies are really an electronic communications post box. Orders still come into them, but they let

things happen, and interfere only by exception. They might add any orders they might want for their own fleets, but thereafter the order feed is automatically sucked to the UK once per day."

Interview with Peter Bailey

- At the moment, all the supply pipelines are national, and the only opportunity that exists to juggle between nations is outside these national pipelines at the headquarters level. Rover intends to move on to consider the potential for marketing a more universal product offer across Europe, which would enable these pipelines to be combined and shared across markets wherever possible;
- The basic consumer profiles, including customer-acceptable delivery timescales and satisfaction are broadly similar across the chosen markets, with the exception of Germany, where there is a much greater tradition of build to order and longer lead times. Customers order their cars well in advance and expect the manufacturer to be able to build their individual specification combination. Peter Bailey believed that this market characteristic was slowly in the process of changing, mainly under the influence of the increasing penetration of foreign makes in the German market.
- Despite the inevitable complications of introducing pioneering change into foreign cultures, Rover now reckons to have achieved exactly the same ordering system in all 6 of its major European markets, something which it feels very few, if any, other manufacturers have yet come close to matching.

"It is a lot more complicated than people think; it is a lot easier to track what is going on within your own borders ... and there remains a lot of work to be done. We would not claim to have reached utopia, and our dealers in Europe would certainly have some interesting tales to tell, but it is the principle of what we are trying to achieve that is so important. We want to offer our continental customers a firm delivery date - some other manufacturers think this is impossible. Rover's dates are currently tied to a production week - many others could not tie it to less than a month - but when the system becomes more interactive and more robust, they ought to be tied to a single day."

Interview with Peter Bailey

7-2-7 ISSUES EMERGING FROM THE PROGRAMME

Two important issues which have emerged from the programme were identified during the research discussions; firstly the importance of common specifications across Europe and secondly a shift away from outlet-level towards national-level marketing strategies.

7-2-7-1 COMMON SPECIFICATIONS AND A REDUCTION IN MODEL VARIANTS

If supply pipelines are to be able to handle more than one market, it is essential to engineer common specifications and to reduce the number of model variants produced wherever possible.⁹ This will involve striking a balance between high-selling specifications for which a specific national production may be justified, and lower volume sellers where transnational or pan-European specifications may be more advantageous. Like many other manufacturers, Peter Bailey confirmed that, as part of the programme, Rover had been both reviewing its existing product range in the hope of cutting out unwanted specifications (weighing up sales against manufacturing and logistics complexity) and also engineering its new models to be as 'distribution-friendly' as possible. For instance, the result of this process for the Rover 200/400 range was the retention of 5 body types, 4 trim levels, 8 engines and 5 equipment options.

Figure 7-2

ROVER 200/400 RANGE - UK RETAIL 'CHOICES'¹⁰

Model year	Number of specification permutations
Pre-1992	50,667
1992	40,556
1993	39,166
1994	3,538

For Rover, this process was made much easier as a result of the cross-functional reach of

⁹⁹ This point was reflected strongly in the literature on lean production - see section 3-2-1

¹⁰ Source: Hünerberg, R., Heise, G. and Hoffmeister, M., 1995, p.353

the Distribution Efficiency programme; marketing, sales, engineering and logistics departments were able to work together to understand the 'cost of complexity' of models which were rarely ordered, and to monitor the consumption of specification permutations in relation to cost.

7-2-7-2 EVOLVING NEW MARKETING STYLES

Peter Bailey and Rover perceived that, despite advances such as being able to offer the customer a definite delivery date and the specification of their choice, the European market in general is not yet at the stage to move to fixed-price selling. However, the new stock control systems were opening up some possibilities of changing the way marketing is conducted. With greater stock control, it ought to be possible to run marketing in a more targeted way at a regional or national level instead of relying on dealers' local campaigns aimed at moving cars from their storage yards. However, it is likely that exceptions will still be needed for tactical instances, such as the end of a model's life, when cars need to be 'shifted' Under these scenarios, the dealer's local market expertise will still be vital.

7-2-8 LESSONS FOR THE 'LEAN' AGENDA

Three final points were raised by Peter Bailey during the research discussions as being possibly the most important lessons to be learnt from what Rover still calls its 'experiment'.

7-2-8-1 THE NEED TO FOCUS ON THE WHOLE VALUE CHAIN

The distribution chain and the larger the number of actors within it, the greater the potential for '*muda*' (Womack, J. and Jones, D., 1996) or slack to become built in. The only way to avoid this is to retain a view of all aspects of the chain and a particular focus on the elements which add value, as the following two examples illustrate.

"It is easy to say that you will deliver the car within 3 days within the UK. But if the car is going abroad, it has to be got to Southampton, or to another port, then there are only so many sailings, you have to allow for the weather, etc.. The average sailing time to Spain may be 7 or 10 days, Japan may be 6 weeks or whatever; if you only have 2 sailings a week to Germany, you have to quote 5 days to the customer in order for the promise to be 'safe', because you don't know whether the car will get on the first boat or the second. All these conditions create slack in the system, before the car even gets to the distribution centre. Similarly, once it has arrived, the distribution centres may have check-in processes, check-out processes, PDI, preparation, dispatch, load building, etc.; all slack, and this before you can even say that the car has left the centre and will be at the dealer in x number of days."

Interview with Peter Bailey

The same problem was described at the manufacturing level:

Many current manufacturing systems rely on detailed forecasting over long periods set against components with long, fixed lead times. Production stability is thus only possible by means of inflexible schedules balanced by exceptional actions with suppliers to meet short term volume and mix changes; suppliers respond by holding excess stocks themselves in order to meet these situations. The irony is that fluctuations in orders coming up the chain are usually due not to absent customers but to dealers overreacting to perceived demand and supply levels; these fluctuations get amplified along the chain. Lean thinking here should centre on internal and external suppliers building rapid response with minimal waste into their own business management processes, removing supplier constraints which prevent component procurement times from being compatible with customer required lead times. For the manufacturer, this could provide flexibility of scheduling along with the ability to configure the final customer specification as close to build as possible, in other words to reach the true build to order target of assembling 'batches of one'."

Interview with Peter Bailey

7-2-8-2 THE NEED TO ADAPT TO LOCAL MARKET ENVIRONMENTS

It was also emphasised that the ability to introduce new strategies such as Rover's will always be conditional on the suitability of the market environment in which the make is selling.

"The market is not necessarily going to change in the way you are seeking to change it, and the market is not going to change as a result of you. Given that the European market has a lot of overcapacity and is intensively competitive, so the systems that are being put in place are somewhat affected by the external environment."

Interview with Peter Bailey

However, it is interesting to note that, despite the extended lead times caused by their sources of production being thousands of miles away, Rover Australia and Japan have nevertheless successfully introduced phase 1 of the programme on their own initiatives.

7-2-8-3 THE IMPORTANCE OF VISION

One final quotation summarises Rover's whole attitude towards changing its distribution chain across Europe, and perhaps hints at why the company is generally considered to be at the forefront of implementing at least the supply and stocking aspects of lean distribution.

"The process is highly complicated, and a very major commitment for a company to make. There is still a lot of work to do; we are not even sure if the end goal is in sight, but we have a vision. If you don't experiment, if you don't try things, then there are all sorts of things you will never know even existed until they hit you in the face. The concept of being able to come up in advance with a comprehensive plan that covers everything is just not feasible."

Interview with Peter Bailey

7-3 DAEWOO'S ARRIVAL IN THE UK MARKET

7-3-1 INTRODUCTION

It is rare for the arrival of a new manufacturer in the UK market to arouse as much comment as has been the case with Daewoo. Prior to their very public launch campaign and the establishment of their novel distribution network, very little was known about the company. Since the start of 1995 however, the rest of the industry has been watching them very closely. Some claim to be waiting for their distribution system to fail, whereas others are examining closely which elements might be able to be copied ...

Because of the intense nature of the scrutiny they have been under, and because the company was unwilling to assess itself publicly or to be judged only on the basis of its opening months of activity, it proved impossible to establish sufficient contacts to enable primary research to be carried out within the desired timeframe. Therefore, this case study is constructed from secondary material issued both by the company and in newspapers and industry journals.¹¹

7-3-2 THE DAEWOO CORPORATION

In only 29 years, Daewoo has emerged as one of the most potent corporations in the global, let alone the Korean economy. The company was founded in 1967 by current chairman Kim Woo-Chong, and was initially involved in textiles and clothing. Chairman Kim, considered in his home country as a real entrepreneur, claims not to have taken a day off work since he was 15 - he is now 59. Daewoo has now grown to become the world's 33rd biggest industrial conglomerate and includes 22 companies, 74 international offices, and over 30 foreign factories. It employs over 100,000 people, and manufacturers over 3000

¹¹ See section 5-3-2-2

different products; group sales for 1995 amounted to \$57bn, and the current growth rate is around 30-35% per annum. The target turnover set by Chairman Kim for 2000 is \$200bn; by way of comparison, the figure for GM is currently around \$134bn. The group now manufactures a wide range of products and is involved in a variety of economic sectors; these include cars, trucks, planes, helicopters, heavy plant equipment, ships, railway carriages, defence and aerospace, oil production equipment, construction, telecommunications, home electronics, computers, clothing and textiles. Daewoo is now South Korea's second biggest car manufacturer in terms of units (behind Hyundai). The company name means "*the whole universe*" in Korean and, thanks to the character of its chairman, Daewoo has a reputation as the most adventurous and risk-prepared of the Korean *chaebol*, and has been particularly strong at moving into developing markets.¹²

7-3-3 THE DEVELOPMENT OF DAEWOO MOTOR

Motor vehicle production is one of Daewoo's more recent developments, and originated in 1972 with the establishment of GM Korea, a joint-venture between GM and the Shinjin Motor Company, which had been producing GM vehicle designs under licence. Daewoo gained a management stake in the operation in 1976, and took over control in 1983. The terms of the GM agreement prevented Daewoo from exporting its cars to other markets, until the two sides divorced somewhat acrimoniously in 1992. Under the terms of the separation, Daewoo was allowed to start exporting to Europe in 1995, and to North America in 1996. Consequently, between 1992 and 1995, Daewoo Motor moved strongly into developing markets in South-East Asia, and in particular into Eastern Europe. These investments are summarised later. From this perspective, Daewoo's beating of GM to win control of Poland's FSO during 1995 was therefore particularly poignant for the company.

Daewoo is without doubt the most ambitious of the Korean manufacturers. It is aiming to be one of the world's top ten vehicle producers by the turn of the century, producing two million vehicles per year, of which over half will come from its foreign plants. At home the company is investing \$150m in a new test track complex in Kochang, not far from its new Kunsan production complex on Korea's west coast. This is part of its commitment to invest over 7% of total annual sales into R&D. Globally, Daewoo's motor division alone has already committed \$5.5 billion of investment into its car production operations, of

¹² Daewoo company information

which \$3 billion is for its Eastern Europe-based operations. 1,169,000 units will be manufactured outside Korea, of which 605,000 will come from these Romanian, Polish and Czech Republic facilities.¹³

Figure 7-3

DAEWOO'S INVESTMENT IN OVERSEAS VEHICLE PRODUCTION¹⁴

Country	Company	Investment	Capacity	Product
India	DCM Daewoo	\$1.1bn	240,000	Cielo, J100, LCV
China		\$70m	10,000	Bus
Vietnam	Vidamco	\$32m	21,000	Cielo, Espero, Prince
Philippines	Transfarm	\$20m	20,000	Racer, Cielo, Espero
Indonesia	Starsauto	\$20m	23,000	Espero, Cielo, Bus
Iran	Daewoo Kerman	\$600m	50,000	Racer, Espero
Uzbekhistan	Uz-Daewoo	\$635m	200,000	Cielo, Tico, Damas
Romania	Rodae	\$960m	200,000	Cielo
Poland	FSO	\$1.1bn	220,000	T100, new FSO
Poland	FS Lublin	\$740m	90,000	Nexia, LCV
Czech Republic	Avia	\$200m	95,000	LCV, Truck
Total		\$5,447bn	1,169,000	

NB. Cielo = Nexia

Daewoo has recruited Arnold Ostle as its worldwide chief for styling, quality and quality control. He was previously in charge of Mazda's design centre in Germany, and before that was head of interior design, colour and trim at Porsche. Ostle is the second European executive to go to Daewoo following Ulrich Bez, former Porsche executive, joined as head of R&D in September 1994. Uniquely amongst the Korean manufacturers, Daewoo has also established 2 European R&D facilities. The larger of the two, at Worthing in the UK, is the former IAD operation taken over from the Mayflower Group. Daewoo is investing £7 million in the site, which now employs 700 people concentrating on design and development, the reduction of production lead-times and prototype manufacturing. The second facility, concentrating on engines and transmissions, is at Munich, and Daewoo also has a further arrangement with Austria's Steyr-Daimler-Puch, which will lead amongst other things to the production of diesel engines. In early 1996, the company also got close to acquiring Lotus from its troubled owner Romano Artioli, who also ran the revived

¹³ Source: Financial Times, 19/10/94, 6/9/95, Automotive Management, 22/1/96, Korean Automobile Manufacturers Association

¹⁴ Source: As above

Bugatti company until its collapse in 1995.

7-3-4 DAEWOO'S PRODUCT RANGE

One of the major criticisms from the rest of the industry and the motoring media surrounding Daewoo's arrival in Europe has been their decision to launch with a limited range of models based on borrowed GM technology:

- The Nexia is essentially the previous edition Opel Kadett / Vauxhall Astra;
- The Espero has as its underpinnings the Opel Vectra / Vauxhall Cavalier of the early 1980s.

However, in certain European markets, this has actually worked to Daewoo's advantage, as these models had good reputations when they were sold by GM. Furthermore, Daewoo's decision to sell the cars with very high specifications means that they offer more standard equipment than most of their immediate competitors. In the UK, the high product specification was seen as part of the strong customer service philosophy that was adopted by Daewoo deliberately because of the lack of a brand new model range. The UK motoring press, highly sceptical at the outset, has since then grudgingly come to acknowledge the strengths of the model range on offer.

*"The styling is anonymous but not unattractive ... this need not bother buyers whose expectations and resources will be modest. They are only looking for a brand-new small/medium or large/medium car, laden with what are normally extras, that promise to deliver trouble-free motoring at a down to earth price ... the Espero is not a great car; just a competent one, astonishingly well equipped and sold at a most affordable price."*¹⁵

The indications are, however, that this is set to change, and scoop pictures of the next generation of Daewoos are now starting to appear in the motoring press.¹⁶ The company is investing \$1 billion over the next 5 years on the development of new models alone; this

¹⁵ Source: Financial Times, 13/05/1995

¹⁶ See, for instance, Car Magazine, February 1997, p26-7

does not include the costs of building up, for example, the East European production.

7-3-5 DAEWOO'S EUROPEAN DISTRIBUTION STRATEGY

7-3-5-1 A HIGH PROPORTION OF WHOLLY-OWNED NATIONAL DISTRIBUTORS

Instead of starting off in the European market with independent importers as most new entrants do, Daewoo has chosen to operate its own subsidiary National Distributors in all of the major markets. The reason for this has been given as the company's desire to establish lean distribution.¹⁷

"By investing directly, the manufacturer avoids having to deal with an intermediary and has more control over the market, meaning more efficiency."

Chief Executive, Daewoo France

Daewoo currently has 10 wholly-owned National Sales Companies (Austria, Belgium, France, Germany, Holland, Ireland, Italy, Luxembourg, Spain, UK) and 6 independent importer operations. By way of comparison, Kia was launched into the European market in 1991 (starting with the UK), and currently only has one wholly-owned National Distributor (in Belgium).

7-3-5-2 EUROPEAN DEALER STRUCTURES

Along with the ground-breaking UK arrangement to be discussed later, Daewoo has selected different dealer network structures to respond to the specific needs of each market.

¹⁷

Source: conference speech by Marketing Director Pat Farell

For instance:

- **Germany:** Daewoo launched in February 1995 with 20 wholly-owned branch operations in major towns and cities, backed up by 100 independent dealers. This network had grown to 291 dealers by the end of 1995. A total of 400 sales outlets are planned by the end of 1996.
- **France:** It was felt that a system of small independent dealers was more appropriate for the French market, where costs and risks are higher, and 66 were operating by May 1995. Daewoo France operates 3 succursales, in Paris, Marseille and Metz, and will also develop a network of 100 service-only facilities, operating like fast-fit outlets. These are planned to display new cars, and maybe to sell them as well at a later date. The network will increase to 150 dealers, of which 50% will be exclusive.
- **Italy:** From launch in early 1995, the network numbered 60 dealers and 24 sub-dealers. Many of these are multifranchise operations. By the end of 1995, the dealer count had grown to 102. The aim is for 80% of the dealers to be exclusive.¹⁸

7-3-5-3 1995 SALES PERFORMANCE

The following table gives the results of Daewoo's first few months of operation in a selection of European markets. As they did not start selling until around March at the earliest in any of these markets, both targets and sales figures refer to the remaining months of 1995. As can be seen from the table, the sales performance is generally a positive one, but not universally so. Targets were beaten in France, the UK and Holland, but unfulfilled in Italy, and especially in Germany, despite the significant volume of dealers that had been signed up.

¹⁸

Source: L'Argus de L'Automobile, 12/1/95, Motor Trader, ZDK

*Figure 7-4***DAEWOO BY THE END OF 1995¹⁹**

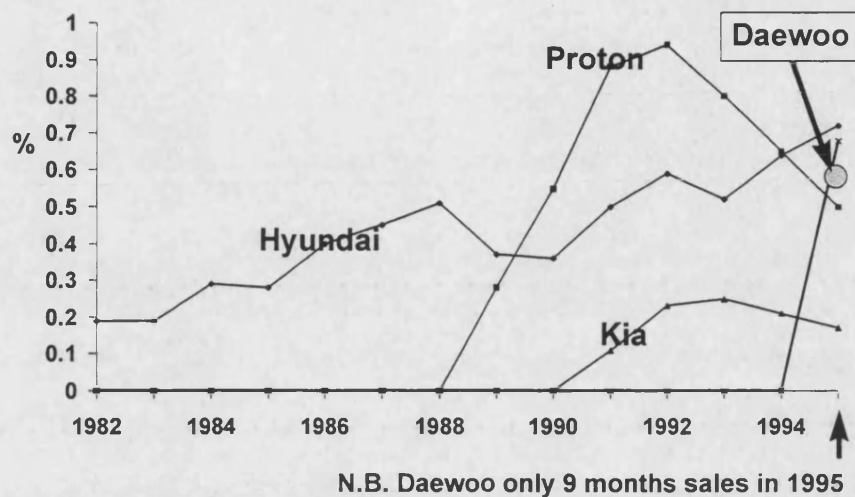
	Target	Units sold	Market share	Main dealers
<i>France</i>	5000	6207	0.25%	106
<i>Germany</i>	1%	14,190	0.43%	291
<i>Italy</i>	6500	4011	0.25%	102
<i>Netherlands</i>	4000	6100	1.5%	82
<i>UK</i>	10,000	13,169	0.68%	18*
* 6 Motor Shows and 12 Car Centres. Also 136 Halfords Service Centres				

So, perhaps Daewoo's most significant contribution to these European markets so far in terms of sales has been to the increase in overall Korean make penetration. The end-of-year figures for 1995 showed the Korean makes to have sold 178,000 units for a 1.5% market share, up from 0.9% at the end of 1994.²⁰ However, to keep things in perspective, the year-end 1995 figures for the Japanese makes were 1,278,254 units and a 10.6% market share, so the difference is still a very significant one.

In the UK, Daewoo have virtually overtaken all the other Korean manufacturers after only 9 months. In January 1996, their penetration had reached 1.6%. As shall be illustrated later in this chapter, they have achieved this with only a fraction of the usual number of retail outlets.

¹⁹ Compiled from Automotive Management, Financial Times, Sewell's Dealer Principal and Observatoire de la Distribution, No.5/96

²⁰ Source: Automotive News Europe and Observatoire de la Distribution, No5/96

*Figure 7-5***UK SHARES OF KOREAN AND MALAYSIAN MAKES 1982-1995²¹****7-3-6 DAEWOO'S UK DISTRIBUTION SYSTEM**

In the UK, Daewoo have established a network of branch (wholly-owned) retail outlets which sell new and used cars, backed up by a service deal with the Halfords chain of car service and accessory superstores (owned by Boots).

7-3-6-1 PHILOSOPHY BEHIND THE APPROACH

It is perceived that there have been five principal motivations which have driven Daewoo's approach to their UK distribution network.²²

²¹ Compiled from SMMT data

²² Researcher's categorisations

- **The need for a novel solution**

As a new arrival, Daewoo needed to achieve a high volume of sales quickly, but in the longer term their ambitions centred around creating mass appeal for a mass brand. The constraints of the highly mature and slow-selling UK market, particularly in the case of private sales, meant that a novel approach was needed if the company was to make a real impact. Furthermore, as already mentioned, Daewoo knew in advance that it would be potentially disadvantaged by its lack of a new product range.

- **A desire to be customer focused**

Prior to launch, Daewoo analysed the strategies of their competitors. They concluded that the majority of the opposition had either a strong brand but little product generosity or vice-versa. Daewoo needed to build both from day one. They also reckoned that, whilst every brand now declares that it wants to be customer focused, no one company has yet emerged as market leader in customer service.

“Our whole way of doing business was borne out of concern for the cost of ownership experience.”

David Gerrans, Customer Operations Director, Daewoo
UK

A strong focus on customer service (including the high standard specification of the cars) would help to divert attention from the weaknesses of the actual model range. It would also serve the company in good stead for when the new models arrived.

- **A perception of customer dissatisfaction with the traditional selling format**

Partly so as to establish the company's credentials regarding customer focus, Daewoo conducted the 'Daewoo Dialogue' consumer research campaign, incentivised for the public by the offer of 200 free cars for a year. The results gave the company a database of 200,000 interested motorists, and allegedly constituted the biggest ever survey of car buyers' attitudes in Europe. The marketing of the campaign adopted a straightforward, homely, presenter-based style as opposed to involving fantasy driving sequences like so many other car marketing campaigns.

According to Daewoo, the survey revealed that customers are not happy with current system of independent franchised dealers:

- 63% of respondents found showrooms to be intimidating places;

- a similar percentage thought that the salesman usually wins in the haggling process with the customer;
- 86% of respondents said that they would be prepared to travel up to 50 miles for a 'better buying experience'.²³

Coincidentally, these were all concerns that Daewoo was planning to address in its network of wholly-owned retail outlets ... A subsequent marketing campaign launched in late 1995 asked people who have suffered at the hands of the motor trade to come forward with their stories. The 100 people who come up with the worst horror stories would be given a car to test drive for a year. The clear message was that, for Daewoo, people were as important as cars, further reinforcing the marque's commitment to customer care. At the same time, the campaign served to debase the traditional franchised dealer selling system, a tactic which has aroused a significant degree of hostility within the UK industry.

- **A lack of willingness to sell through existing dealers**

Initially, Daewoo was faced with the same problem as all new entrants; finding a high quality network of dealers willing to take a risk with an unknown make. The company was thus faced with the prospect of joining the back of queue, unless something more radical was tried. Once Daewoo has thought out its customer service philosophy, it felt that its needs could not be met by an independent franchised dealer, and was also unwilling to see its brand image become diluted through representation within a multifranchise dealer group. The only remaining option if its planned service levels were to be guaranteed was therefore to control its outlets directly, through ownership.

- **The existence of the Halfords service infrastructure**

Daewoo was already planning to split its planned wholly-owned retail outlets into a larger and a smaller type, so as to be able to provide the full range of services where they were needed, and more lightweight facilities where appropriate, when the deal with Halfords was struck. This therefore fitted in with their conception of an unbundled distribution network with services provided as close to the consumers as appropriate. For Daewoo, the Halfords deal provided a ready-made service network located in all the major towns and cities of Great Britain. This avoided the need for a great deal of investment. For Halfords, the deal would bring some rental income from the space Daewoo's operations occupied, some captive custom for its service

²³

Compiled from Daewoo UK marketing and a conference speech delivered by Marketing Director Pat Farrell, also Marketing, 11/1/96

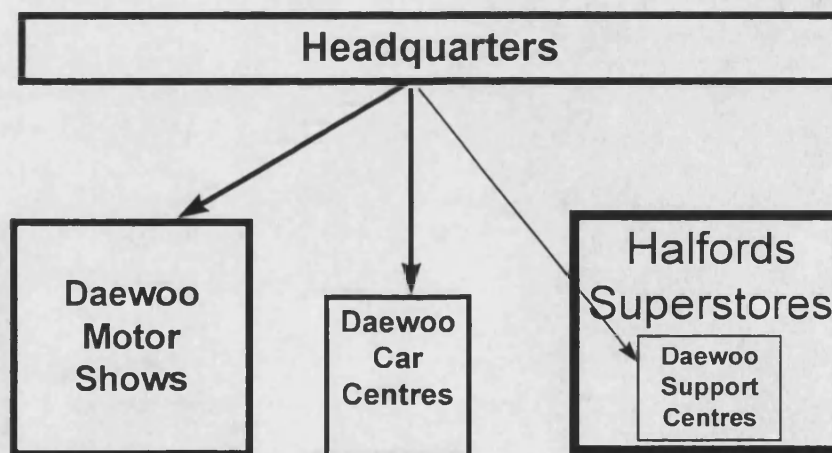
bays and some additional traffic for the accessory superstores in the form of Daewoo owners waiting for their cars to be serviced. Furthermore, Halfords' system of menu pricing for its workshop operations would fit in well with the Daewoo philosophy of transparency for the customer.

7-3-6-2 NETWORK STRUCTURE

Daewoo's UK distribution system operates according to the three-tier structure shown below.

Figure 7-6

DAEWOO'S UK DISTRIBUTION NETWORK



All of Daewoo's outlets display a number of common features:

- Large, open-plan format with relatively few cars on display;
- Interactive computer consoles using touch-screens to allow customers to investigate their own specification combination and finance options;
- Salaried sales advisors (with no commission incentives) who operate on a 'no-hassle' principle are used. These are the employees of Daewoo UK, not of each individual site;

- Customers are greeted when they enter the facility, and are invited to approach a member of staff if they have any queries. Otherwise, they are left to browse unhindered. Free refreshments and play areas for children are included in the larger outlets.

At the start of 1996, Daewoo's UK network comprised:²⁴

- **7 Motor Shows:**

These are the larger outlets, usually located in out-of-town retail centres, alongside electronics, or furniture superstores, etc. For example, the facility at Ealing in West London has a floorspace of 40,000 square feet, and a 70-seater café.

- **14 Car Centres:**

These are the smaller outlets, usually located in similar areas.

Both Motor Shows and Car Centres have a variety of facilities according to the local need. For instance, only some of the Car Centres have their own service facilities.

- **134 Support Centres located within Halfords Superstores:**

These are essentially service-only facilities, although they all display product information and have an interactive computer console for potential customers. 12 of the Halfords facilities also have mini-showrooms employing sales advisors.

Daewoo is also experimenting with other retail locations. In March 1996, Daewoo commenced selling from a 500 sq. ft. site located within the 120,000 sq. ft. Sainsbury's Savacentre hypermarket at Colney near the M25 north of London, which attracts 250,000 shoppers per month. 3 Daewoo sales advisers are present on site, along with a reception desk, semi-private discussion area and a car on display. Daewoo literature is displayed in the shopping aisles and in the petrol station, and touch-screen interactive computer displays are located in the Savacentre restaurant and in the play area. 6 demonstrator cars are on hand outside the store.²⁵

Other detailed points of relevance include the following:

- Outlets are not set individual sales targets, nor are they measured against each other by Daewoo UK;
- Customers may telephone to bring a demonstrator car to their front door. Up to half a day's driving, without a salesman, is allowed;

²⁴ Source: Daewoo UK company information and retailer location brochures

²⁵ Source: Motor Trader, 8/4/96, Automotive Management, 8/4/96

- Customer enquiries, service bookings, etc. are all handled centrally through UK headquarters at Rickmansworth using a free-phone service.

7-3-6-3 THE CUSTOMER DEAL

New cars

The following graphic summarises Daewoo's new car offer in Europe and the UK, which is significantly more 'loaded' than its rivals'.

Figure 7-7

DAEWOO'S CUSTOMER OFFER²⁶

Europe-wide..	In the UK as well..
<ul style="list-style-type: none"> ✦ 3 year/100,000 km warranty for any unscheduled work. ✦ 6 years anti-corrosion cover. ✦ 3 years roadside recovery 	<ul style="list-style-type: none"> ✦ Free servicing for 3 years or 60,000 miles,. Includes: <ul style="list-style-type: none"> → reminder call, → pick up and delivery → courtesy car. ✦ Free half-day test drive ✦ All delivery costs including 12 months tax and number plates ✦ Free security registration with National Register ✦ Fixed sticker price

Furthermore, because of its fixed price selling strategy, Daewoo claims to make no differentiation between fleet and private buyers. However, it should be noted that a significant proportion of UK sales so far have been to daily rental fleets (Avis, Kenning and Hylton), to contract hire operators (Cowie, BRS, Lex, Hertz, Swan and Auto Lease), and to company fleet customers (McDonalds, Britannia Airways, the AA, Associated

²⁶

Source: Daewoo UK marketing

Newspapers, Panasonic, BHS, Canon, Mothercare, the CSMA, MacMillan Publishing and Orange). It can therefore only be speculated as to whether this fixed-price position does actually change in the event of a major customer placing a large order ...

When Daewoo launched in the UK in April 1995, the first 1,000 customers were offered a replacement N-registration new car the following August for a nominal registration fee of £11. This served not only as a marketing tactic, but also provided the company with a ready stock of nearly-new vehicles with which to launch its used car operation.

Used cars

The company's used car programme, called Daewoo Resale, displays a number of particular features;

- It differs from most other used car programmes in offering a company-backed guarantee instead of an insurance-underwritten warranty;
- All cars offered have independently-verified mileage, are screened for freedom from outstanding hire-purchase agreements and undergo a 116 point inspection to gain AA Quality Assurance certification;
- The price includes the promise of an exchange or refund within 30 days of purchase, a year's mechanical and electrical guarantee, a year's Europe-wide AA cover, six months' road tax, a mobile phone, free MOT tests until the car is sold and a courtesy car during services;
- The guarantee can be extended to 3 years, and is transferable to subsequent owners, so long as the mileage does not exceed 100,000 miles and the car is serviced by Daewoo;
- All cars on the scheme are under 4 years old and have covered under 40,000 miles. In addition to the traded-in cars mentioned above, Daewoo also purchased a stock of used cars of a selection of makes with which to launch the scheme.²⁷

7-3-6-4 THE COSTS

It is apparent that Daewoo UK have placed a very considerable amount of investment into building their UK distribution system;

²⁷

Source: Daewoo UK marketing

- The company spent £10 million in 1994 on marketing communications; building brand awareness before a single car had been sold;
- The 1995 UK marketing communications budget was £16 million;
- They spent the equivalent of £877 on above-the-line media advertising for every new car sold (note that this is approximately the equivalent to a 10% dealer margin - see table below);
- The overall budget for building the UK distribution system is understood to be £150 million.²⁸

Nor has this high rate of spending been restricted to the UK market. The French advertising budget for 1995 was between FF25 million and FF30 million. This set a new record at over FF10,000 per car sold.²⁹ Despite the corporation's extremely deep pockets, and the potential it has for bolstering its expanding car operations through its successes in other sectors, it has to be wondered exactly how long such a rate of expenditure will be able to be maintained.

However, whilst the UK approach has been particularly expensive when compared to the more traditional routes adopted in other markets, it has provided Daewoo with a faster growth in market penetration than in any other of their European markets. By the end of 1995, their sales figures were ahead not only of the other Korean makes, but also Mazda, Mitsubishi, Proton, Seat and Skoda ...

Figure 7-8

UK PAID MEDIA SPEND 1995³⁰

	£ per car	Registrations
<i>Ford</i>	135	410,722
<i>Vauxhall</i>	212	294,131
<i>Rover</i>	165	240,007
<i>Proton</i>	592	9,800
<i>Hyundai</i>	672	13,948
<i>Kia</i>	566	4,004
<i>Daewoo</i>	877	13,169 (Mar-Dec)

²⁸ Source: Sewell's Dealer Principal

²⁹ Source: L'Argus de L'Automobile

³⁰ Source: Nielsen Register / MEAL

7-3-7 IMPLICATIONS OF THE DAEWOO APPROACH

Despite its early stage of development, several implications of the Daewoo approach are already becoming apparent.

7-3-7-1 POTENTIAL IMPLICATIONS FOR DAEWOO

- **Daewoo has no direct control over service:**

Daewoo's customer care philosophy and almost all of its marketing strategy focuses on the brand's service proposition, and yet the company has no direct control over most of the outlets contracted to service its products. Control over service channels was put forward by the industry as one of the key arguments in favour of the retention of the Block Exemption, but Daewoo's approach would appear to undermine this concept entirely. This approach reduces Daewoo's opportunity to use its service offer as a means of building a long-term relationship with its customers, as they will most likely buy and have their cars serviced at different locations. One potential future scenario may be for Daewoo actually to take over the Halfords superstore chain from its current owners Boots Plc, who are rumoured to be searching for a buyer.

- **Used cars may prove to be a particular problem:**

The somewhat outdated current Nexia and Espero models are expected to suffer from low residual prices in the marketplace. Furthermore, Daewoo owners may receive poor trade-in prices at dealers representing other franchises as these dealers try to extract some revenge for their very negative portrayal in Daewoo's marketing campaigns. The Daewoo sales advisors' inability to haggle trade-in values with potential customers under the fixed price system may also put the brand at a disadvantage when compared to other franchises who are able to haggle.

- **The UK experiment may spread to other markets:**

Existing dealer networks may be bypassed in a number of European markets if Daewoo were to move to establish new branch operations. Possible service partners for such a move already exist in France and the Netherlands. Daewoo already operates a number of wholly-owned outlets in Germany and France and is

planning to open a facility in the Netherlands.

7-3-7-2 IMPLICATIONS FOR THE 'LEAN' AGENDA

- **Different approaches to car retailing are emerging:**

Daewoo's UK network is a prime example of how different structures may emerge to target and to serve different areas and different population segments. The network also provides retailers with far larger market territories than has traditionally been the norm, gambling that customers will be prepared to travel further to buy or repair their car. It also answers one of the predictions concerning closer working partnerships in the distribution chain by being fully integrated, with many activities conducted from the centre rather than individually.

- **Consumer expectations are increasing:**

The Daewoo approach will further increase future consumer expectations, particularly regarding warranties, free servicing, and the overall quality of the car shopping experience. Consumers will legitimately be able to expect other dealers to match or to beat the Daewoo offer.

- **The 'no-hassle' approach to selling does appeal to some sectors of the car-buying population:**

The 'no-hassle', 'no-haggle' approach to selling, combined with a full specification and service package and predictable cost of ownership together do appear to hold more appeal for certain sectors of the population than the absolute dynamic capabilities of the vehicle. Daewoo has accompanied this with retail staff who operate entirely on salary as opposed to commission, and who are not pursuing specific sales targets. Beyond this, however, there is no reason why elements of this approach will not be particularly suited to much broader segments of the car market. For instance, complete predictability of running costs will certainly appeal not only to fleet managers, but also to any cost-conscious private buyer.

From the perspective of the research agenda, it is interesting to see that a company which, for the short term at least (until its East European factories come fully on stream) will be unable to implement any significant amount of new thinking into its supply and stocking system because of the lengthy lead times involved in shipping the cars over from Korea, is

nevertheless actively introducing new ideas which are attempting to optimise as many other elements of the car distribution value chain as possible.

7-4 CONCLUSIONS

This chapter has presented two brief case studies into two companies which are in the process of implementing many of the ideas which have been associated both in the literature³¹ and in other areas of the fieldwork³² with the notion of lean distribution.

Several important observations came to light during the two case studies:

Rover

- **Lean distribution, particularly in the area of supply and stocking systems, is being implemented:**

Implementation of lean supply and stocking systems has been taking place, initially in the UK, and then in continental Europe. The benefits of reduced lead times, guaranteed delivery dates, open order pipelines, integrated computer networks, etc. have already been felt by both the manufacturer and its dealers. The impact of such systems on consumer satisfaction will be observable soon.

- **Product offerings are being rationalised:**

The company is convinced that, if such supply systems are to be able to operate efficiently on an international basis, it is essential to achieve both common specifications and a significant reduction in the number of specification combinations within the model range, making the product both production and distribution 'friendly', but without sacrificing customer choice.

- **New marketing styles are emerging:**

Despite the belief that the European market is still not sufficiently integrated to

³¹ See Chapter 3

³² See Chapter 6

support a move to true fixed-price selling, marketing is starting to move away from dealer level 'stock shifting' towards more targeted regional, national and even international campaigns. The achievement of further developments such as fixed-price selling and a greater internationalisation of marketing strategy is being brought closer as obstacles across the European market continue to fall, but more progress, particularly towards a single currency, is needed before they can fully take hold.

- **Lean distribution requires a focus on the entire value chain:**

The successful introduction of new distribution systems such as Rover's requires that the company focuses on and seeks to optimise all value-adding elements of the chain, including production, logistics, marketing, national subsidiaries, parts suppliers, dealer networks, etc. At the same time, however, the ability to introduce new systems will be conditional on the suitability of the particular market environment, which may require that solutions be tailored to meet these conditions.

Daewoo

- **A new arrival in the European market has deliberately chosen to implement a new style of distribution system from the outset, prioritising the role of distribution within the whole chain and trying to ensure that manufacturing and retailing are 'pulling together'. This illustrates the emergence of new approaches to car retailing.**

However, only one market has so far been deemed suitable for the new system, with traditional systems having been established in other European markets. Nevertheless, the possibility exists for these markets to adopt elements of the UK approach in the future, if market conditions prove appropriate.

- **The stated driving force behind the new system is customer satisfaction.**

The 'no-haggle', 'no-hassle' selling style, the moves towards fixed-cost motoring and the extensive warranty and support package offered all reflect the increasingly demanding nature of consumer expectations in certain market segments.

The next chapter draws these ideas together into a short-list of observed lean distribution 'ingredients', the validity and implementation of which were subsequently tested in the final postal survey. They are returned to again in the research conclusions chapter, Chapter 9.

CHAPTER 8

FIELDWORK SURVEY: THE CONCEPTS OF LEAN DISTRIBUTION

"When the definitive history of the 20th Century is written, it will undoubtedly major on a number of significant events. Two devastating world wars will feature prominently, as will the advent of nuclear weapons. The development of television and radio communication will be unfolded together with the advancement of man's ability to travel by land, sea and air. Space travel and early attempts at interplanetary exploration will also merit a few pages for sure. Yet nothing has been quite so close to people during this momentous century than the development of the motor car. Of all modern inventions, it has probably had the greatest influence on how day-to-day life is led."

Ernie Thompson and Roger King, Chief Executive of the Society of Motor Manufacturers and Traders and Roger King, Chairman of the British Motor Industry Centenary Trust, quoted in The Motor Industry of Britain Centenary Book, published by the SMMT, 1996

8-1 INTRODUCTION

This chapter presents the research model which was developed to test and to validate the most important concepts which emerged from the preceding sections of the fieldwork. Following on from the outline of the methods adopted which was given in Chapter 5, it initially draws up the list of nine 'lean distribution factors' and explains how they were built into the survey before going on to discuss the outcome of the statistical steps taken to validate the data collected and then finally to present the findings.

8-2 THE CONCEPTS OF LEAN DISTRIBUTION

8-2-1 LEAN DISTRIBUTION FACTORS

The following table outlines the nine postulated lean distribution 'factors' which were presented to industry respondents in the form of the postal survey. They represent a distillation of the themes which were the most strongly mentioned by all types of respondent in the pilot, interview and case study phases of the fieldwork within the context of the development of lean distribution structures and strategies.

*Figure 8-1***LEAN DISTRIBUTION FACTORS**

FACTOR 1	Having the physical distribution chain and production planning driven by sold customer order pull, and not by stock push
FACTOR 2	Having integrated computer systems which unite retailers, manufacturers and suppliers and which enable two-way order and information exchanges
FACTOR 3	Reducing the number of model variants and specification differences
FACTOR 4	The fragmentation of car retailing into a multiplicity of different approaches to meet the needs of different regions and vehicle types
FACTOR 5	Establishing closer relationships between manufacturers and retail partners
FACTOR 6	The rethinking of territorial coverage including market area approaches involving fewer individual main dealers and the dispersal of dealership activities according to local needs
FACTOR 7	The establishment of fixed-price selling
FACTOR 8	Having a less confrontational selling style and different reward structures for customer-facing sales and service staff
FACTOR 9	Conducting less outlet-level marketing and more customer retention and order generation campaigns with a national or regional focus

The first three factors are derived from the physical distribution activities section of the material, as presented in Chapter 6, factors four to six from the distribution chain organisation section, and the final three factors from the selling and marketing activities section.¹ Furthermore, the first three factors came across particularly strongly from the case study on Rover's distribution system. Equally, factors 4 to 9 all feature in Daewoo's UK distribution network as presented in the second half of the last chapter. Together, they were all felt to be representative of the many developments underway in the European market which have been associated, both in the literature and by the industry itself, with the notion of lean distribution.² The following table situates these nine factors according to their occurrence in the literature and according to their observation and discussion in previous sections of the research fieldwork.

¹ See Chapter 6, sections 6-2 to 6-4

² See section 3-3

*Figure 8-2***DETERMINATION OF THE LEAN DISTRIBUTION FACTORS**

Factor	Literature discussion section	Fieldwork discussion section
<i>Factor 1</i>	3-3-1 and 3-3-2	6-2-2
	3-3-6-2	7-2-3
<i>Factor 2</i>	2-3-5-3	6-2-3
		7-2-3-2
<i>Factor 3</i>	3-3-3	6-2-4
	3-3-6-1	7-2-7-1
<i>Factor 4</i>	2-3-5-2	6-3-2-4
		6-3-3 to 6-3-8
		7-3-6 7-3-7-2
<i>Factor 5</i>	3-3-5	6-3-9
	3-3-6-1	6-3-10
		7-2-4
<i>Factor 6</i>	2-3-5-2	6-3-4
	3-3-6-1	7-3-6
<i>Factor 7</i>	2-5-1	6-4-3-2
	3-3-6	7-2-7-2
		7-3-7-2
<i>Factor 8</i>	2-3-1	6-4-3
	3-3-6	7-3-6
		7-3-7-2
<i>Factor 9</i>	2-3-2	6-4-1
	3-3-6	7-2-7-2

8-2-2 SURVEY CONSTRUCTION

As was mentioned in Chapter 5, the survey was made up of two questions which asked respondents to assess the nine factors given above from two different perspectives; one relating to how they perceived the concept of lean distribution and the other to how they rated the application of these concepts in a variety of markets. A sample survey is included in Appendix XIII, and a flavour of the types of respondent who participated in the survey is given in Appendix XIV.

8-2-2-1 QUESTION 1

Question 1 asked:

“How do you rate the following statements in terms of their importance to the overall concept of lean distribution in the motor industry?”

Respondents then rated each of the nine factors by ticking a box along a five-point scale. For the purposes of data analysis, this scale was later numbered from one to five, as follows.

Very unimportant	Unimportant	Indifferent	Important	Very important
x	x	x	x	x

The question would make it possible to assess the extent to which respondents thought that the concepts were central to how they perceived lean distribution, and also to view the concepts relative to each other.

8-2-2-2 QUESTION 2

Question 2 asked:

“How well-established do you feel that these concepts have become in the world’s major car markets?”

Respondents then rated each of the nine factors across a grid of nine different markets or groupings of markets. They were asked to score each from 1 to 5 where:

- 1 is ‘no elements of lean distribution have yet become established’;
- 5 is ‘lean distribution is fully established’.

France	Germany	Italy	UK	Benelux	Scandinavia	Iberian (E/P)	Europe overall	Japan	USA
x	x	x	x	x	x	x	x	x	x

This question would allow both the implementation of these concepts across the range of markets to be assessed, and also the markets and regions to be compared against each other.

8-2-3 SURVEY RESULTS - QUESTION 1

8-2-3-1 DATA ANALYSIS

As was mentioned in the methodology section (Chapter 5), it was considered that ANOVA tests represented the most appropriate methods of data analysis for both the survey questions. Question 1 contained one variable, asking respondents to rank the given list of conditions (factors) along a five-point scale from ‘very unimportant’ to ‘very important’; for this question a one-way ANOVA test was used to analyse the 44 responses (all of them complete), and the outcome is presented in the following table.

*Figure 8-3***ONE-WAY ANOVA TEST FOR QUESTION 1**

Source of Variation	SS	df	MS	F	P-value	F crit
<i>Between Groups</i>	178.6364	8	22.32955	26.04476	3.49E-32	1.962341
<i>Within Groups</i>	331.7955	387	0.857353			
<i>Total</i>	510.4318	395				

As can be seen from the table, the F-statistic (26.044) is much larger than the critical value of F (1.962), indicating a significant level of variance between responses for each factor. It is thus possible to reject the null hypothesis, which is that there is no significant level of difference between the factors.

8-2-3-2 DISCUSSION OF FINDINGS

The following table summarises the responses to Question 1 by factor and by type of response.

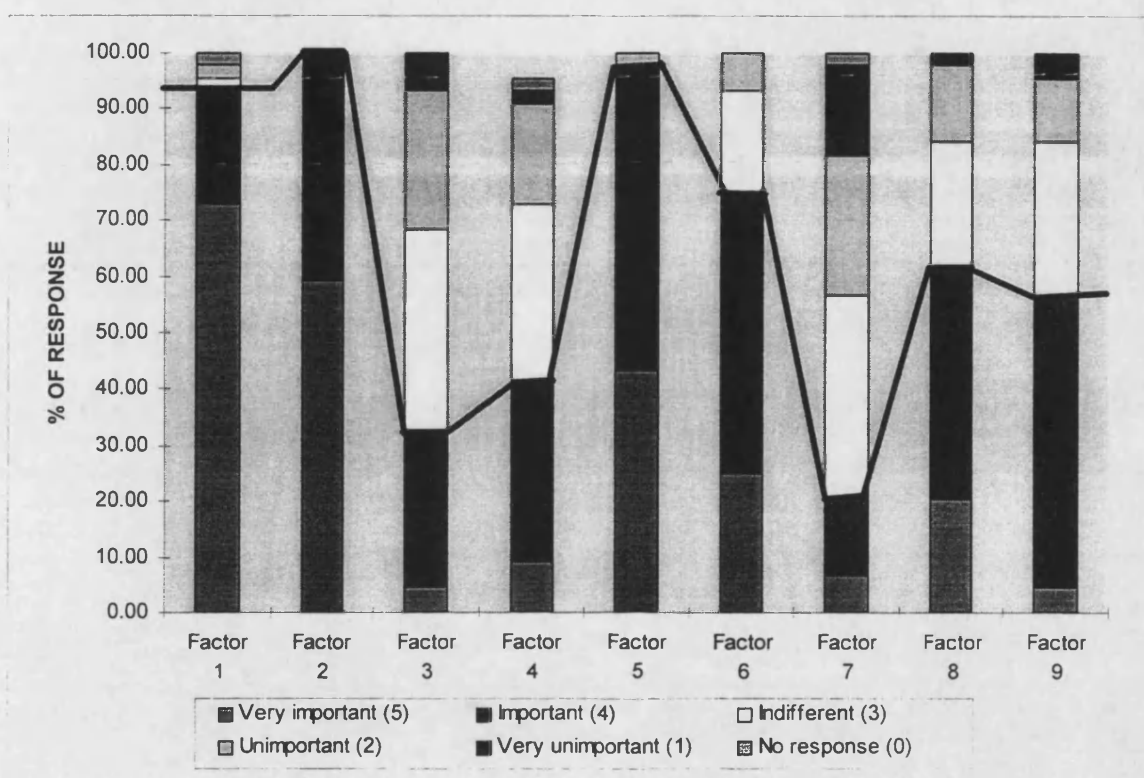
*Figure 8-4***SUMMARY OF QUESTION 1 RESPONSES (1)**

% of responses	Factor 1	Factor 2	Factor 3	Factor 4	Factor 5	Factor 6	Factor 7	Factor 8	Factor 9
<i>Very important</i> (5)	72.73	59.09	4.55	9.09	43.18	25.00	6.82	20.45	4.55
<i>Important</i> (4)	20.45	40.91	27.27	31.82	54.55	50.00	13.64	40.91	52.27
<i>Indifferent</i> (3)	2.27	0.00	36.36	31.82	0.00	18.18	36.36	22.73	27.27
<i>Unimportant</i> (2)	2.27	0.00	25.00	18.18	2.27	6.82	25.00	13.64	11.36
<i>Very unimportant</i> (1)	0.00	0.00	6.82	2.27	0.00	0.00	15.91	2.27	4.55
<i>No response</i> (0)	2.27	0.00	0.00	2.27	0.00	0.00	2.27	0.00	0.00

This can be depicted graphically as follows;

Figure 8-5

SUMMARY OF QUESTION 1 RESPONSES (2)



It is immediately apparent from these figures that there were clear differences between the factors in how they were perceived by the survey respondents. As the trendline inserted onto the bar chart after the 'Very important' and 'Important' categories shows, it is possible to split the factors into three divisions according to how central respondents thought they were to the concept of lean distribution.

Division 1 - Factors 1, 2 and 5

The greatest number of 'very important' scores was achieved by Factor 1, which is what would have been expected given the predominance of supply and stocking systems discussions in the lean literature³ and also given the frequency with which this topic emerged during the interview sections of the fieldwork; the achievement of customer-pull

³ See section 3-3-2

physical distribution systems really was perceived of as being central to the notion of lean distribution. However, scoring even higher if 'very important' and 'important' scores are taken together are Factors 2 and 5 relating to integrated computer-based communications systems between different levels in the chain and to the emergence of closer working partnerships between manufacturers and retailers of cars. As is discussed again in respect of Question 2, Factor 2 could be seen as a relatively straightforward development which is well-advanced throughout the industry. Nevertheless, it is interesting to note how central a role technology plays in the industry's perception of lean distribution; this factor scored even higher than had been expected. Similarly, the highest overall score was obtained by Factor 5, which suggests that the notion of closer manufacturer-dealer partnerships discussed by a good number of interview respondents really does pervade all levels of the industry. However, just as with the research interviews, it is one thing to maintain that closer working partnerships are the way forward for the lean future of the industry, but another thing altogether to actually implement them. As one of the survey respondents commented:

"Closer relationships between manufacturers and retail partners depends on what is meant by 'closer' - 'more dictatorial' or 'more participative'?"

Survey respondent

Viewed together, these factors paint a picture of a highly integrated lean system very much instigated and controlled by the manufacturers.

Division 2 - Factors 6, 8 and 9

The second division of factors contains those relating to the rethinking of dealer territories and activities and also to the evolution of marketing strategies. Factor 6 in particular scored highly in the 'very important' and 'important' categories, suggesting that the rethinking of dealer networks was being conducted as part of a positive strategy rather than as a reaction to many of their smaller numbers going out of business. This also suggests, particularly when viewed in the light of the low score achieved by Factor 4, that the industry is confident in the future of the franchised dealer system. It was also interesting to see that the two specifically marketing factors, which might not have been expected to figure so highly in perceptions of lean *distribution*, both scored highly, indicating that respondents consider the lean system to encompass all the value-adding elements of their distribution chains.

Viewed together, this second division of factors shows that there is considerable change underway in both the dealer network management and marketing areas of the chain, and that these changes are occurring within the frame work of what the industry perceives of as lean distribution. It also suggests that franchised dealers will continue to play a part in this system, albeit operating in much closer partnership with the manufacturers.

Division 3 - Factors 3, 4 and 7

The lowest scores were obtained by Factors 3, 4 and 7, meaning that these were the factors which respondents felt had the least importance to the concept of lean distribution. A fairly low score for Factor 4 was somewhat expected given that Factor 6 had scored highly, and that the vast majority of respondents had a professional interest in maintaining the current franchised dealer system. Nevertheless, there was still a very significant body of opinion (40% of responses if 'very important' and 'important' are taken together) which believed that different forms of car retailing were an integral part of the lean distribution concept.

"The most important element of lean distribution will be to see which new, more efficient distribution channels (such as the Internet or direct selling) will be used by manufacturers in the future."

Survey respondent

Bottom of the list were Factors 3 and 7; these two also had the highest proportion of 'unimportant' and 'very unimportant' scores. The reduction in specification differences was viewed by many as being an important development in itself, but that is was not part of the concept of lean distribution.

"Model variants and fixed-price selling are factors which might or might not follow from the establishment of lean distribution rather than elements of the thing itself."

"The winners will be those who can combine leaner distribution methods with a product offer which is a choice not a compromise."

Survey respondents

Nevertheless, the proportion of those who scored the factor 'very important' or 'important' still totals almost 32%, so the factor is really not as unimportant as its ranking might suggest. Fixed-price selling scored lowest of all, with many feeling that as a development

it would exist independent of the moves to establish lean distribution.

“Fixed price selling, a less confrontational selling style, and also a reduced number of model variants, whilst all, are not necessarily a requirement of a lean distribution system. They may well, however, make one function more effectively.”

Survey respondent

As also emerged from the interview fieldwork, this score was due to respondents being divided as to its actual value, with some believing that it was an integral part of moves towards build-to-order as well as towards improving customer satisfaction with the whole process, whereas others felt that the ability to vary both new and used prices was still an essential tool for manufacturers to be able to manage fluctuations and cyclicity in the market. As one respondent commented, it should be possible for the selling price to the customer to remain fixed throughout the transaction, as long as this price could be periodically varied by the manufacturer as necessary.

“Pricing should be fixed at the time of sale, but with frequent changes.”

Survey respondent

Further comments

Several respondents offered further comments with regard to the matter of defining lean distribution. One offered a carefully thought-out definition of his own, which essentially summarises many of the factors which scored highly throughout the first question.

“Lean distribution is the current optimisation of the distribution processes in the value chain by unconditional customer orientation and avoidance of any wasted resources. It requires total system integration of the partners involved, with the manufacturer acting as a cooperative team/system leader as a result of the complexity of the product and the capital and know-how which is necessary to run the process.”

Survey respondent

Another correctly pointed out that the concept could be interpreted differently according to

one's position within the distribution chain.

"From the logistics perspective, lean distribution means reduced order to delivery time. From the cost point of view, it means reduced dealer networks, and from the customer's point of view it means getting the vehicle they have ordered to their exact specification requirements delivered at the right place, at the right time."

Survey respondent

A final comment worth mentioning here is from a respondent who underlined the need to consider lean distribution within the overall context of competitive pressures facing the industry on a global level. The most significant of these pressures, a point echoed in the literature,⁴ is persistent overcapacity at the production level.

"Lean distribution will have a chance to be in place only when overcapacity has been dramatically reduced, and even at that time car manufacturers will need to explore new technologies for tooling which will enable them to follow unpredictable market fluctuations. This is not the case today in Europe, the US or Japan. What will happen to Saturn if demand falls below production capacity?"

Survey respondent

8-2-4 SURVEY RESULTS - QUESTION 2

8-2-4-1 DATA ANALYSIS

As opposed to Question 1, Question 2 contained two variables, asking respondents to mark (again on a five-point scale) both the lean distribution factors themselves and also their implementation across a selection of global markets. To reflect the two dimensions of the question, it was decided to conduct a two-way ANOVA test (with replication) to assess the significance of the data collected. The outcome of this is presented in the table below.

⁴ See section 3-3-1

*Figure 8-6***TWO-WAY ANOVA TEST FOR QUESTION 2**

Source of variation	SS	df	MS	F	P-value	F-crit
<i>Between subclass</i>	383.7665734					
<i>Rows</i>	5.129537617	8	0.641	0.5765		1.94
<i>Columns</i>	10.02073717	9	1.113	1.0011		1.882
<i>Interaction</i>	368.6162986	72	24.96	22.444		1.293
<i>Error</i>	1797.282078	1616	1.112			
<i>TOTAL</i>	2181.048652	1705				

As can be seen from the table, the F-statistics for both rows (0.576) and columns (1.001) in the results table do not exceed the critical values of F (1.94 and 1.882 respectively), indicating an absence of a significant level of variance. This test therefore failed to reject the null hypothesis, which was that there was no difference between the subclasses in the data.

The reason for this failure is fairly straightforward; there were too many subclasses and not enough responses. The total number of subclasses, or possible responses in the survey was 3960 (10 markets multiplied by 9 factors multiplied by 44 responses⁵), and the number actually received was only 1706. This response rate in itself was not so much of a problem as the actual pattern of the responses; respondents would either complete the question in its entirety, filling in the whole grid of boxes, or would only complete the column for their home market, plus maybe one or two other markets with which they were familiar. There was very little middle ground between these two extremes, and this led to some markets receiving many more scores than others.

This outcome was not at all unexpected given the challenging nature of the survey and this, combined with the high level of interaction reported by the two way ANOVA test, led to the decision to test the two dimensions of the survey (the factors and the markets) separately, again using one-way ANOVA tests. The results of these tests, which were successful, are given below.

⁵ See the sample survey in Appendix XIII

*Figure 8-7***ONE-WAY ANOVA TEST BY MARKET FOR QUESTION 2**

Source of Variation	SS	df	MS	F	P-value	F crit
<i>Between Groups</i>	180.4936	9	20.05484	16.92935	5.38E-27	1.885386
<i>Within Groups</i>	2010.299	1697	1.18462			
<i>Total</i>	2190.793	1706				

As can be seen from the table, the F-statistic this time (16.93) is much larger than the critical value of F (1.885), indicating the presence of a significant level of variance. It is thus possible to reject the null hypothesis in this case, which is that there is no significant level of difference in perceived implementation levels of the factors across different markets (regardless of factor differences).

*Figure 8-8***ONE-WAY ANOVA TEST BY FACTOR FOR QUESTION 2**

Source of Variation	SS	df	MS	F	P-value	F crit
<i>Between Groups</i>	126.207	8	15.77588	12.97473	2.76E-18	1.943846
<i>Within Groups</i>	2064.586	1698	1.215893			
<i>Total</i>	2190.793	1706				

Once again, the F-statistic (12.97) is much larger than the critical value of F (1.94), indicating the presence of a significant level of variance. It is thus possible to reject the hypothesis that there is no significant level of difference in perceived implementation levels of the factors (regardless of market differences).

8-2-4-2 DISCUSSION OF FINDINGS*Overall question results*

The following tables summarise the results of the second question. The first presents the score totals by factor and by country, the second presents the number of responses in each

case, and the third presents the resulting average scores.

Figure 8-9

QUESTION 2 SCORE TOTALS

	FR	GER	IT	UK	B-LUX	SCAN	SP+P	EUR	JAP	USA	Factor total
<i>Factor 1</i>	54	66.5	45	90	43	36	29	63	56	53	535.5
<i>Factor 2</i>	67	71	52	97	44	37	36	69	54	83.5	610.5
<i>Factor 3</i>	43	52	43	64	28	28	27	55	42	58	440
<i>Factor 4</i>	45	48	32	70	25	25	26	46	40	59	416
<i>Factor 5</i>	43	63	44	79	40	36	37	63	65	64	534
<i>Factor 6</i>	39	45	37	84	31	23	25	48	57	67	456
<i>Factor 7</i>	32	39	28	53	28	21	23	42	38	63	367
<i>Factor 8</i>	35	46	32	58	28	26	21	50	61	62	419
<i>Factor 9</i>	33	34	23	61	18	18	15	37	32	41	312
<i>Market total</i>	391	464.5	336	656	285	250	239	473	445	550.5	4090

Figure 8-10

QUESTION 2 NUMBER OF RESPONSES

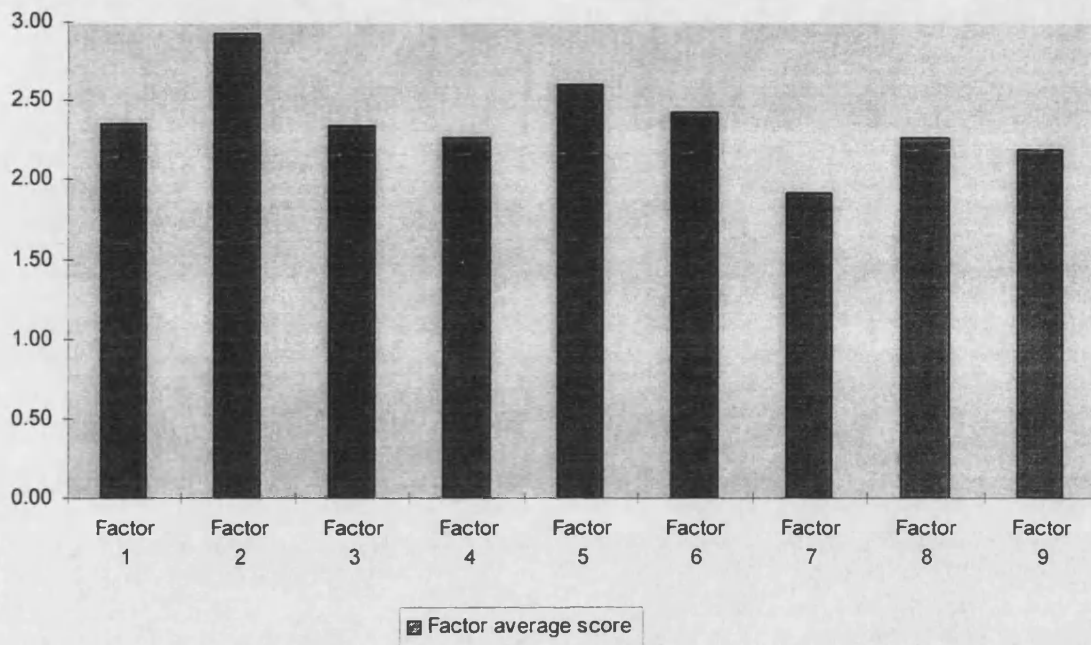
	FR	GER	IT	UK	B-LUX	SCAN	SP+P	EUR	JAP	USA	Factor total
<i>Factor 1</i>	25	28	21	31	19	14	17	25	20	26	226
<i>Factor 2</i>	23	26	21	29	17	13	15	23	16	23	206
<i>Factor 3</i>	20	24	19	26	12	12	13	23	17	21	187
<i>Factor 4</i>	20	23	16	28	13	11	14	21	15	20	181
<i>Factor 5</i>	22	25	20	28	16	13	16	25	18	23	206
<i>Factor 6</i>	21	21	18	25	14	9	13	22	18	24	185
<i>Factor 7</i>	20	22	18	26	15	11	15	24	15	24	190
<i>Factor 8</i>	19	22	17	25	13	11	12	23	17	25	184
<i>Factor 9</i>	16	17	14	24	9	8	9	17	10	17	141
<i>Market total</i>	186	208	164	242	128	102	124	203	146	203	1706

*Figure 8-11***QUESTION 2 SCORE AVERAGES**

	FR	GER	IT	UK	B-LUX	SCAN	SP+P	EUR	JAP	USA	Total factor average
Factor 1	2.16	2.38	2.14	2.90	2.26	2.57	1.71	2.52	2.80	2.04	2.35
Factor 2	2.91	2.73	2.48	3.34	2.59	2.85	2.40	3.00	3.38	3.63	2.93
Factor 3	2.15	2.17	2.26	2.46	2.33	2.33	2.08	2.39	2.47	2.76	2.34
Factor 4	2.25	2.09	2.00	2.50	1.92	2.27	1.86	2.19	2.67	2.95	2.27
Factor 5	1.95	2.52	2.20	2.82	2.50	2.77	2.31	2.52	3.61	2.78	2.60
Factor 6	1.86	2.14	2.06	3.36	2.21	2.56	1.92	2.18	3.17	2.79	2.42
Factor 7	1.60	1.77	1.56	2.04	1.87	1.91	1.53	1.75	2.53	2.63	1.92
Factor 8	1.84	2.09	1.88	2.32	2.15	2.36	1.75	2.17	3.59	2.48	2.26
Factor 9	2.06	2.00	1.64	2.54	2.00	2.25	1.67	2.18	3.20	2.41	2.20
Total market average	2.09	2.21	2.02	2.70	2.20	2.43	1.91	2.32	3.05	2.72	2.37

Analysis by factors

The following graph shows the average scores obtained by each factor, as taken from the table above.

*Figure 8-12***AVERAGE SCORES BY FACTOR FOR QUESTION 2**

As can be seen from the graph, the vast majority of the scores were clustered around the average of 2.37. On a scale where 1 is 'no concepts have yet become established' and 5 is 'concepts are fully established', this indicates that, according to the perceptions of the respondents, implementation still has a long way to go before it is fully complete for any of the factors. This fully mirrors comments collected throughout the fieldwork concerning the embryonic state of much lean distribution implementation.

The top division of factors from Question 1 also scored around the highest in this question, indicating that they are not just being perceived of as part of lean distribution, they are also considered to be implemented as such. The factor with the highest score here is Factor 2, which again suggests that putting in place the integrated computer-based communications and ordering systems is, compared to some of the other factors, a relatively easy task. This would reflect many of the comments which emerged during the interview phase concerning the difference between 'back-office' and 'front-office' activities. Factors 5 and 1 also score highly here which again, given the developments outlined in other areas of the fieldwork, is to be expected.

Factor 6 ranked third in this question, one place higher than in Question 1. This may reflect the fact that the rationalisation of dealer networks is fairly well advanced in many

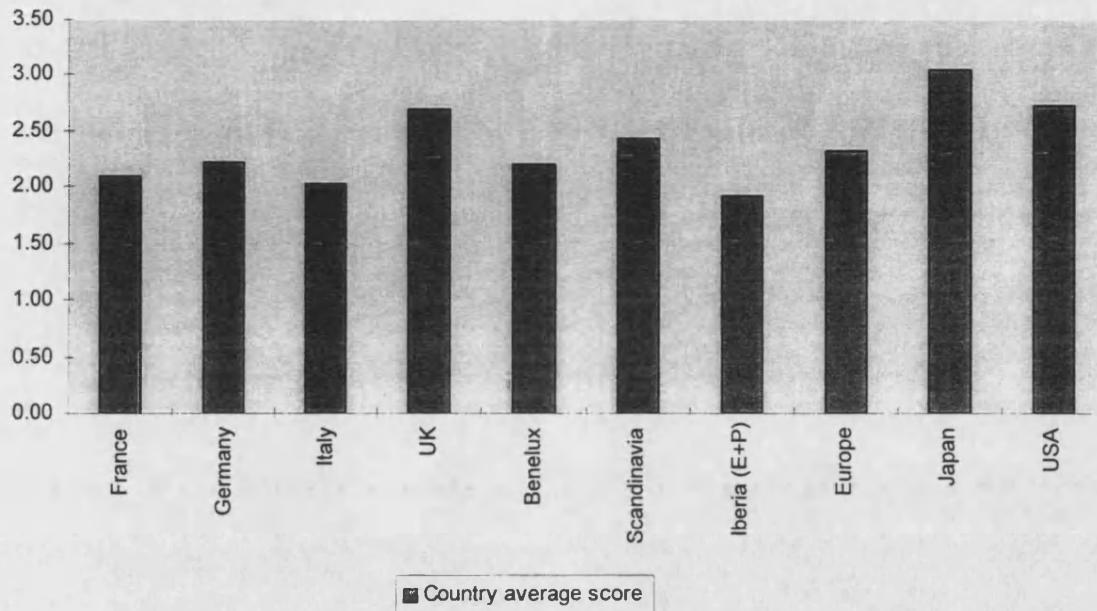
markets, whether respondents consider it to be a part of lean distribution or not. Factors 3 and 4 scored slightly lower, although were higher up the ranking than in Question 1. This again suggests that both factors are being implemented in the markets in question, whether they are thought to be central to the notion of lean distribution or not.

Factors 8 and 9 on the other hand were ranked lower down, suggesting that, whilst respondents did think that they were important parts of lean distribution, they thought that their implementation was either more complicated than the theory or something that will only become established in the longer term. Finally, Factor 7 scored lowest here, as it did in Question 1, suggesting that it is neither thought of as important to lean distribution, nor is it considered to be widely implemented within the industry. This marks an area where research findings diverge from the expectations voiced in the literature, much of which heralds the fixed-price selling component of the Saturn example from the USA as a model for the rest of the industry to follow.⁶

Analysis by markets

The following graph shows the average scores obtained by each market, again taken from the averages table.

⁶ See section 3-3-6-1

*Figure 8-13***AVERAGE SCORES BY MARKET FOR QUESTION 2**

The results here show Japan leading the way in perceived implementation of all the factors taken together, and by quite a margin from the USA and the UK. This is an interesting result; Japan is considered to be the birthplace of lean production, but at the same time their car market is highly complex, with many distribution channels and even door-to-door selling, in other words, many potential obstacles to the implementation of wholesale change. Nevertheless, it was rated highest by the survey respondents. If the responses for Japan are broken down by factor, they appear as follows.

*Figure 8-14***QUESTION 2 RESPONSES FOR JAPAN**

	Responses for Japan
<i>Factor 1</i>	2.80
<i>Factor 2</i>	3.38
<i>Factor 3</i>	2.47
<i>Factor 4</i>	2.67
<i>Factor 5</i>	3.61
<i>Factor 6</i>	3.17
<i>Factor 7</i>	2.53
<i>Factor 8</i>	3.59
<i>Factor 9</i>	3.20
<i>Market average</i>	3.05

These show a high score for Factor 5 and, to a lesser extent, Factor 6, which both reflect attempts by the domestic manufacturers to rationalise and to improve the efficiency of their (sometimes multiple) distribution channels. What is particularly interesting however, and the major contributing factors to Japan's first place in the ranking, are the high scores for Factors 8 and 9, the two marketing-based factors which have been demonstrated to be among the most difficult to implement. Calculations show that these factors are relatively more important in Japan than in all the markets taken together (at a 5% significance level). Plausible reasons for this could include be the moves underway to end the expensive door-to-door selling activities and replace them with a more efficient form of customer contact, and also the high level of interaction between car owner and dealer staff in Japan due to the very strict periodic inspection and the subsequent short ownership cycles; the customers buy cars more often. Again, it would be interesting to see how these features of the Japanese market evolve over the next few years. One respondent backed this point up with the comment:

"The most important aspect of lean distribution in Japan is that it would enable manufacturers to remove some of their different distribution channels (Toyota has five channels) and dealers to be less subject to territorial restrictions. Restrictions over sales channels and territorial restrictions prevent sales activities from being lean in Japan."

Survey respondent

The USA was ranked in second place by the survey respondents, which was to be expected given that much discussion of the implementation of lean distribution employs examples from the US market. However, it is again worth breaking this market down by factors, as doing so reveals the following.

Figure 8-15

QUESTION 2 RESPONSES FOR THE USA

	Responses for the USA
<i>Factor 1</i>	2.04
<i>Factor 2</i>	3.63
<i>Factor 3</i>	2.76
<i>Factor 4</i>	2.95
<i>Factor 5</i>	2.78
<i>Factor 6</i>	2.79
<i>Factor 7</i>	2.63
<i>Factor 8</i>	2.48
<i>Factor 9</i>	2.41
<i>Market average</i>	2.72

The USA scores well on all of the factors (and particularly well on Factor 2) with the exception of Factor 1. Calculations show that Factor 1 is relatively less important in the USA than in all the markets taken together (at a 5% significance level). This suggests that perceived implementation is taking place for all the other concepts faster than it is for supply and stocking systems. This would reflect the fact that the market retains a 'stock-push' character, with large outlets serving their populations from large amounts of on-site stock, and customers quite accustomed to being able to take their new purchase home with them immediately. The large distances involved in supplying the market means that fundamental change in this area will not be easy to achieve in the short term.

The UK, ranked by respondents just behind the USA, also scores fairly evenly across all of the factors. Factor 6 has the highest average score of perceived implementation, which reflects efforts to rethink territorial coverage undertaken by many franchises in the market, as well as the strategies of some of the larger dealer groups, including the setting up of 'hubs and satellites' structures within a territory.

The Scandinavian region was ranked by respondents in fourth place, which is possibly higher than was expected. One possible explanation lies in the low volumes of cars sold in these markets and the relatively small dealer networks concentrated in the (few) major population centres; the smaller scale of operations means fewer obstacles and less cultural inertia to the implementation of new ideas, which are thus perceived to have been achieved faster. This region has also been the subject of attempts by several manufacturers to coordinate some activities (such as national distributor representation) at the transnational (or regional) level so as to avoid duplication of efforts and staff for relatively few sales. As has been illustrated elsewhere in the fieldwork, many of these factors have the potential to be administered from another level than the purely national.

Of the remaining markets, the lowest perceived implementation levels were scored in the southern European markets, Spain, Portugal, Italy and France. The reasons for this are again most probably due to the environmental characteristics of the markets in question; large territories with a few major centres and otherwise dispersed populations, tiers of sub-dealers and *agents* selling few cars and operating far removed from the manufacturer's influence and histories of trade barriers against imported cars (especially Japanese) which mean that many foreign makes are still catching up in terms of getting their dealer networks closer to their intended strategies. Together, these environmental complications make the implementation of new ideas and different working practices difficult, and also mean that many more chain actors need to be convinced of the value of the changes before they can gain a critical momentum.

A couple of these markets also reveal some interesting results when broken down by factor. The following table displays the factor scores for France.

*Figure 8-16***QUESTION 2 RESPONSES FOR FRANCE**

	Responses for France
<i>Factor 1</i>	2.16
<i>Factor 2</i>	2.91
<i>Factor 3</i>	2.15
<i>Factor 4</i>	2.25
<i>Factor 5</i>	1.95
<i>Factor 6</i>	1.86
<i>Factor 7</i>	1.60
<i>Factor 8</i>	1.84
<i>Factor 9</i>	2.06
<i>Market average</i>	2.09

Calculations here reveal a particularly high score for Factor 4 (2.25), which is relatively more important in France than in the other markets taken together (at a 5% significance level). This is particularly interesting since the fragmentation of retailing into different selling formats was not rated as being central to perceptions of lean distribution in Question 1. One reason for this relatively high level of perceived implementation could be the growth in France of *mandataires*, resellers of cars who operate outside the dealer system and who source cars for individual customer orders, usually from any nearby market which may be cheaper than France. Although not perceived as being particularly central to lean distribution in Question 1, respondents nevertheless thought that different retailing formats were a particular feature of the French market.

Finally, the following table displays the factor results for Italy.

*Figure 8-17***QUESTION 2 RESPONSES FOR ITALY**

	Responses for Italy
<i>Factor 1</i>	2.14
<i>Factor 2</i>	2.48
<i>Factor 3</i>	2.26
<i>Factor 4</i>	2.00
<i>Factor 5</i>	2.20
<i>Factor 6</i>	2.06
<i>Factor 7</i>	1.56
<i>Factor 8</i>	1.88
<i>Factor 9</i>	1.64
<i>Market average</i>	2.02

Calculations here show that the perceived implementation of Factor 3 (ranked second) is relatively more important in Italy than in the other markets taken together (at a 5% significance level). However, Factor 3, which has to do with the reduction in specification variants, was not ranked highly as being important to perceptions of lean distribution. Again, some explanations could be provided here from the market environment: Italy only has one domestic volume manufacturer (albeit one which produces a number of different brands), and this company has been engaged in reducing the number of variants it offers of each model. Furthermore, Italy has a tradition of complicated and onerous tax laws, which manufacturers try to circumvent by producing 'tax-break specials', or models with different combinations of engines and equipment from the normal range offered in the rest of Europe so that they might fit into a lower tax banding. Many manufacturers have complained about the extra expense involved in producing such specification variants to meet tax regimes all over Europe, but the problem has been particularly marked in Italy, hence this is reflected in the score obtained here; respondents are obviously relatively confident that this situation is improving in Italy.

8-3 CONCLUSIONS

This chapter has presented the construction, data analysis and results of the postal survey examining the car industry's perceptions of the theory and implementation of lean distribution.

It tested nine factors which had emerged from the other sections of the fieldwork programme as being central to the theme. Respondents rated these factors in terms of their centrality to how they perceived lean distribution and then of their implementation across a selection of ten market regions.

The results revealed the lean distribution factors to be divided into three divisions of importance, with the most important relating to supply and stocking systems, the achievement of integrated communications systems for vehicle ordering, customer information and chain interaction, and the establishment of closer working partnerships between manufacturers and retailers. The results also revealed a wide variance in perceived levels of implementation across the selection of markets, with the most advanced markets being Japan, the USA and the UK.

These results will be discussed further in the next chapter, which draws the research conclusions, and also in Chapter 10, which discussed some of the wider implications of change in this area of the industry.

CHAPTER 9

RESEARCH CONCLUSIONS

"This is not an innocent age. The car is now one of the mature products of Western civilisation and deserves no mercy from consumers. It doesn't matter that cars all look similar, for ultimately they will be killed by two things: uselessness and boredom. First, political apathy about traffic volume will ultimately cause massive disaffection among exactly the people the car was created to liberate. Second, boredom among consumers tired of the complacency of manufacturers who persist in doing exactly the same old thing, season in, season out, will have us all on bicycles."

Stephen Bayley, Car Magazine, December 1995

9-1 INTRODUCTION

This chapter uses the research findings presented in the preceding chapters to answer the three research questions outlined in Chapter 4. It examines each question in turn and considers whether the hypotheses were confirmed or rejected by the course of the fieldwork which followed.

9-2 REVIEW OF THE RESEARCH QUESTIONS

9-2-1 RESEARCH QUESTION 1

It is hypothesised that it will be possible to pick out, to observe and to categorise evolutions and new developments in:

- *distribution chain structures and relationships across the European market;*
- *industry perceptions of and attitudes towards the post-factory sector*

which correspond to the philosophies expressed in the literature on lean production and distribution, taking into account the context of the (still imperfect) Single European Market in cars.

This question was specifically intended to guide the concept exploration and model development section of the research, which encompassed the pilot dealer surveys and the two interview programmes. As such, the material collected proved to be more than adequate for the purposes of conducting this task.

As is illustrated in Chapters 6 and 7, despite the many different types of respondent encountered during the research, a large amount of material was collected relating to the evolution of distribution chain structures and relationships across the European market, and also to general industry perceptions of the future prospects for the sector. This material served to frame the nine lean distribution factors submitted for testing in the final survey phase of the research, and also backed up the survey's findings relating to differences in perception of lean distribution and in implementation of distribution chain developments across the European market.

For instance, in the whole supply and stocking and physical distribution area (Factors 1 to 3), the overwhelming impression from both the interview programmes and the case studies was one of a mindset change underway in the European industry in favour of the adoption of order-pull distribution systems, integrated chain communications and reduced specification differences between markets.¹ However, whilst many companies subscribed wholeheartedly to the principle of these developments, their perception proved to be less than fully uniform and their implementation less than complete for a number of reasons, which included differences in size and scope between wholly-owned and independent National Sales Companies, differing perceptions of the Single Market environment, and differing dealer attitudes towards their franchise and relationships with their manufacturer.² Nevertheless, examples such as Rover³ demonstrate that companies are changing their distribution structures within the context of a 'lean' philosophy, which in their case has permeated not only their ordering and physical distribution, logistics and IT activities, but also right back to the production planning stage in their recognition of the need to design new car models to be 'distribution-friendly'.⁴

As well as learning how the industry perceived developments such as these, these areas of the research also gained an understanding of some of the practical problems in their implementation. For instance, Rover commented that the changeover to a built-to-order system would make the company highly vulnerable in the event of the most popular models not being available within the timeframe to which customers had become accustomed, and also that there would still be occasions, such as old model run-outs and new model introductions, when it would still be desirable for the manufacturer to be able to force cars down the distribution chain to the dealers.⁵ For these reasons, and others such as the time

¹ See Sections 6-2-1 to 6-2-4

² Which usually vary according to how well their particular franchise is performing in the marketplace
- see Section 6-3-10

³ See Section 7-2-2

⁴ See Section 7-2-7-1

⁵ See Section 7-2-4

needed to weed stocks out of the system, the need to train staff at the different levels and to overcome cultural inertia within the organisation, the costs of introducing new computer-based systems at central, National Sales Company and dealer levels, the need to deal with both cars and spare parts, and the need to accommodate differing national legal requirements and consumer tastes into product specifications, it quickly became apparent that, whilst all these changes were occurring, the complete 'lean' system cannot be put in place overnight, and that progress would vary both between markets and between different departments within different companies.⁶

The same was true of dealer network management and marketing; research in these areas both gathered the opinions of the industry towards current trends and possible future developments,⁷ and also investigated the example of a company (Daewoo UK) which has started with a fresh sheet of paper and set out to implement many of the ideas linked with the emerging concept of lean distribution, such as closer relationships with retailers and new approaches to territorial coverage, marketing and customer treatment, all based on the notion that their distribution system is as much a source of potential competitive advantage as their cars. Again, the research discovered that implementing new approaches such as these is far from problem-free; in Daewoo's case the cost so far has been enormous,⁸ and questions have also been raised over matters such as service control and trade-ins,⁹ and also that all elements of the system cannot be set up, or judged, overnight. Nevertheless, the attention being paid to the Daewoo 'experiment' by the rest of the industry demonstrates how important these developments are currently felt to be.

By grouping all this material thematically, and reviewing it in the light both of the literature and also of the two parallel case studies conducted, it was possible to distil all the findings down into nine closely-related but distinct factors. These were postulated for testing in the final survey as being the ingredients of a lean distribution system. The result was the list of factors given again below.

⁶ Such as the 'back office' - 'front office' split - see Sections 6-3-2-1 and 6-3-2-2. See also Sections 6-2-2-2, 6-2-3 and 6-2-4

⁷ See Sections 6-3 and 6-4

⁸ See Section 7-3-6-4

⁹ See Section 7-3-7-1

*Figure 9-1***LEAN DISTRIBUTION FACTORS**

FACTOR 1	Having the physical distribution chain and production planning driven by sold customer order pull, and not by stock push
FACTOR 2	Having integrated computer systems which unite retailers, manufacturers and suppliers and which enable two-way order and information exchanges
FACTOR 3	Reducing the number of model variants and specification differences
FACTOR 4	The fragmentation of car retailing into a multiplicity of different approaches to meet the needs of different regions and vehicle types
FACTOR 5	Establishing closer relationships between manufacturers and retail partners
FACTOR 6	The rethinking of territorial coverage including market area approaches involving fewer individual main dealers and the dispersal of dealership activities according to local needs
FACTOR 7	The establishment of fixed-price selling
FACTOR 8	Having a less confrontational selling style and different reward structures for customer-facing sales and service staff
FACTOR 9	Conducting less outlet-level marketing and more customer retention and order generation campaigns with a national or regional focus

Given the high frequency with which these factors occurred in discussions during the two interview programmes, it was considered that the task set out in the first research question had been sufficiently well conducted to put the emerging factors forward for further testing in the final postal survey.

9-2-2 RESEARCH QUESTION 2

It is expected that perceptions of the lean distribution paradigm and rankings of these key areas in terms of their perceived importance to the paradigm will display a significant degree of variation across a sample of the car industry. As it is predicted above¹⁰ that lean distribution will constitute a variety of distribution chain developments,¹¹ so it is hypothesised here that the industry itself will assign differing priorities to each of them.

There were strong indications, both in the literature¹² and in the interview material which gave rise to the list of factors, that this research question could also be successfully answered, that a measurably significant degree of variation would be observable in perceptions of lean distribution across a sample of industry respondents, but it was unclear in advance of the final survey what the outcome would actually be.

This part of the research question was affirmed when statistical analysis of the survey results found significant levels of variance between the scores for the different factors.¹³ Further analysis of the actual scores obtained by each factor revealed three clear divisions in the industry's perceptions of lean distribution, as the following table summarises.

¹⁰ Research Question 1

¹¹ Expressed in this research as the 'factors' of lean distribution

¹² See, for example, Sections 3-2-2 and 3-3-5

¹³ See Figure 8-2

*Figure 9-2***THREE DIVISIONS OF LEAN DISTRIBUTION FACTORS**

DIVISION 1	FACTOR 1	Having the physical distribution chain and production planning driven by sold customer order pull, and not by stock push
	FACTOR 2	Having integrated computer systems which unite retailers, manufacturers and suppliers and which enable two-way order and information exchanges
	FACTOR 5	Establishing closer relationships between manufacturers and retail partners
DIVISION 2	FACTOR 6	The rethinking of territorial coverage including market area approaches involving fewer individual main dealers and the dispersal of dealership activities according to local needs
	FACTOR 8	Having a less confrontational selling style and different reward structures for customer-facing sales and service staff
	FACTOR 9	Conducting less outlet-level marketing and more customer retention and order generation campaigns with a national or regional focus
DIVISION 3	FACTOR 3	Reducing the number of model variants and specification differences
	FACTOR 4	The fragmentation of car retailing into a multiplicity of different approaches to meet the needs of different regions and vehicle types
	FACTOR 7	The establishment of fixed-price selling

By ranking these 'factors' of lean distribution relative to each other according to how central to the notion of lean distribution the industry perceives them to be, it will be possible to define the key elements of what the industry feels to constitute lean distribution.

The factors in the first division shown above were thus those considered by the industry to be most central to the notion of lean distribution, and those in the third division the least. Thus it is possible to affirm the second part of the question; this table represents a ranking of the key ingredients of lean distribution, in their order of importance, as rated by a wide-ranging sample of the car industry.

Furthermore, even the factors at the bottom of the list were considered not to be a part of lean distribution by only a small proportion of respondents,¹⁴ meaning that all these

¹⁴ See Figure 8-4

categorisations were considered, in their own ways, to be features of lean distribution.

9-2-3 RESEARCH QUESTION 3

It is hypothesised that the industry will perceive that current and future implementation of these categorisations is and will not continue to be uniform across European, or even global, markets. As a result of their local needs and conditions, certain markets will be more advanced and face an easier task than others in the implementation of both the overall notion of lean distribution and of these categorisations individually.

Again, there were strong expectations from the rest of the fieldwork that the lean distribution survey would report a wide variation in implementation of these factors across the selection of markets, and this did indeed turn out to be the case.

Unfortunately, as is detailed in Section 8-2-4-1, the data collected in this part of the final survey was not sufficient in its volume or completeness to pass the two-way ANOVA test of variance. Consequently, it was not possible to confirm or deny this research question to as rigorous a degree as had been hoped. Nevertheless, the data was more than adequate for further one-way ANOVA tests to be conducted looking at the interactions between the responses by factor and by market, both of which contributed valuable results directly relevant to the research question; very much the 'next best' outcome.

Significant levels of difference were detected in the results in both the factor and the market dimensions. From this it was possible to draw up rankings of perceived implementation by factor and by market, as the following tables from the material presented in Chapter 8 show.

*Figure 9-3***PERCEIVED IMPLEMENTATION OF THE FACTORS**

Rank	Factor average score	Factor
Factor 2	2.93	Having integrated computer systems which unite retailers, manufacturers and suppliers and which enable two-way order and information exchanges
Factor 5	2.60	Establishing closer relationships between manufacturers and retail partners
Factor 6	2.42	The rethinking of territorial coverage including market area approaches involving fewer individual main dealers and the dispersal of dealership activities according to local needs
Factor 1	2.35	Having the physical distribution chain and production planning driven by sold customer order pull, and not by stock push
Factor 3	2.34	Reducing the number of model variants and specification differences
Factor 4	2.27	The fragmentation of car retailing into a multiplicity of different approaches to meet the needs of different regions and vehicle types
Factor 8	2.26	Having a less confrontational selling style and different reward structures for customer-facing sales and service staff
Factor 9	2.20	Conducting less outlet-level marketing and more customer retention and order generation campaigns with a national or regional focus
Factor 7	1.92	The establishment of fixed-price selling
Total	2.36	

From the factor analysis results, it is possible to conclude that there were differences in perceived implementation between the factors, which could then be ranked as above. Comparisons could then be made between the rankings of the factors in this question and the rankings already obtained in the first research question.

*Figure 9-4***PERCEIVED IMPLEMENTATION OF THE FACTORS BY MARKET**

	Market average score
Japan	3.05
USA	2.72
UK	2.70
Scandinavia	2.43
Europe	2.32
Germany	2.21
Benelux	2.20
France	2.09
Italy	2.02
Iberia (Sp + P)	1.91
Total	2.37

The results from the market analysis showed that perceived implementation of all the factors taken together was higher in some markets than in others. It was thus possible to rank the markets as above. Some possible environmental explanations were put forward in the discussion in Chapter 8.

As was detailed earlier, these findings were backed up by the evidence gathered during the interview and case study phases of the research. These showed that the implementation of change is dependent on a whole range of factors such as:

- The state of development of the relevant supranational, national, or even regional market, including specific customer tastes and preferences, the structure of the car retailing sector (such as the number of dealer groups or the extent of multifranchising) and of vehicle sales (such as the proportion of new car sales going to company fleets).¹⁵
- The legislative and institutional framework that impacts on the industry at both a national and a pan-European level. One example discussed during the interview programmes was the continued lack of a single currency across the European market¹⁶ providing an obstacle to more distribution chain activities being conducted at a regional or pan-European level. A further discussion of the legislative framework follows in

¹⁵ For example, see Sections 6-2-5 and 6-3-5

¹⁶ See Section 6-3-2-5

Section 9-2-5 below, and in Chapter 10.

- The present structure of a company's production and distribution chain across the European, and even global markets. This includes the location of production facilities, for example the problems faced by some Japanese and Korean makes in trying to integrate a distribution chain when the cars are produced in their home markets and are subject to long sea transit times,¹⁷ the establishment of pan-European 'coordination centres' and the rethinking of regional structures,¹⁸ and the ability or otherwise of companies to 'start from scratch' in introducing a new system to a particular market, according to the history of their presence there.¹⁹

All these factors may lead companies to adopt a tailored approach to introducing distribution system change, including prioritising certain activities and certain markets,²⁰ involving specialist partners in some activities it may no longer be efficient for the company to conduct itself,²¹ or even treating different areas within a market very differently (such as urban and rural regions).²²

Overall then, notwithstanding the failure of the first statistical test mentioned above, it is possible to affirm the propositions of this research question, namely that the implementation of these lean distribution factors is not perceived of as uniform across the selection of markets by the sample of industry respondents. Some markets are ahead of others in terms of perceived overall implementation, and the individual factors are being prioritised differently in the different markets. Some likely reasons for this have been discussed both here and in Chapters 6, 7 and 8.

¹⁷ See Section 6-3-2-3

¹⁸ See Section 6-3-1-2

¹⁹ The research has postulated that it is easier for companies such as Daewoo, with no history of involvement in a market, to introduce a more radical approach to car distribution than it would be for a more established player. However, the costs of not calling on the assistance of the established national infrastructure are likely to be much higher than for a more 'traditional' approach. See Sections 6-3-2-3 and 7-3

²⁰ See, for example, Sections 6-2-7, 6-3-2-4 and 7-2

²¹ See Section 6-3-3-2

²² See Section 6-3-8

9-2-4 REASSESSING THE LEAN PARADIGM

Overall, this research has confirmed many of the predictions made in the academic literature concerning the spread of 'lean' thinking to the post-factory area of the industry.²³ However, at the same time, it has also added a great deal of detail and richness to the somewhat sketchy definitions of lean distribution contained in the key texts, particularly "*The Machine that Changed the World*" (Womack, J., Jones, D. and Roos, D., 1990)²⁴ which, for the most part, were written before the phenomenon became truly established.

It has shown that the fundamental objectives of lean production, increased productivity, quality and flexibility (Womack, J., Jones, D. and Roos, D., 1990)²⁵ have, as predicted, been carried over into the lean distribution paradigm, and has also confirmed that the key concepts in lean distribution are a focus on the value-adding activities throughout the distribution chain (Jones, D., 1995) and a chain that will increasingly be driven by the customer rather than by the manufacturer (Womack, J. and Jones, D., 1996). But as far as the actual ingredients of lean distribution are concerned, this research has shown that, in the perception of the industry, these extend beyond just that of creating customer-driven supply and stocking systems, which was the dominant factor in the literature.²⁶ Because of the highly interconnected nature of the sector, other related areas such as product specifications, dealer territory planning and selling and marketing styles will all also be affected or required to evolve as part of the development of lean distribution.

This research has also added an insight into the implementation of lean distribution that has thus far been largely lacking from the literature.²⁷ It has shown that the implementation of change involving the activities highlighted as the 'Factors' of lean distribution will be neither straightforward nor uniform across the European market not just because of the interplay of general 'globalising' and 'localising' market forces as mentioned in the literature (Colchester, N. and Buchan, D., 1990; Calori, R. and Lawrence, P., 1991; Hünérberg, R., Heise, G. and Hoffmeister, M., 1995), but also because of the specific histories, characteristics and situations of the chain actors concerned (manufacturers, national sales companies, dealers, etc.). This will lead to a phased and customised implementation of lean distribution across the European market rather than the more

²³ See Sections 3-2-1 and 3-3-1

²⁴ See Section 3-2-1

²⁵ See Section 3-2-1

²⁶ See Section 3-3-1

²⁷ See Section 3-3

uniform change that some predicted would follow from the movement towards a Single Market in cars (Commission of the European Communities/Ludvigsen Associates, 1988; Quelch, J., Buzzell, R. and Salama, E., 1990; Bellenger, L., 1986(a)). This point is discussed further in the following section.

9-2-5 THE PROBLEMATIC NATURE OF THE EUROPEAN MARKET

To judge by the scores obtained in the final survey, and also considering the findings from the pilot survey and interview phases of the fieldwork, it appears that the real impact of the implementation of these lean distribution concepts has yet to be fully felt in more than a few of the franchise networks in the European market.

All this evidence also points back to the literature review, and to the first research question, which emphasised that the backdrop of continued attempts to create a Single European Market in cars is a highly significant mediating influence on sectoral developments. It is clear that the introduction of structural change in a distribution chain, whether it is aimed at the Euro-headquarters, national distributor or dealer level, and whether it is local, national or transnational in scope, will not result in uniform strategies across Europe for any one manufacturer, nor will it result in uniform situations in any one market.²⁸ Certain structures and activities, and particularly those involving what we have termed 'back office' logistical skill, will be pan-European for some manufacturers, but others, in particular the 'front office' activities involving a direct customer interface could usefully be even more differentiated than they are at present. This would suggest that common European best practice will only be possible in selected areas, with others requiring a more differentiated approach. For instance, in terms of the partnership between manufacturers and retailers, the interview programmes reported numerous sectoral developments and options that contribute to this notion of a multiplicity of approaches; a different approach to dealing in rural as opposed to urban areas, dual franchise dealerships for remote areas, multifranchise operations providing out-of-town convenience but urban exposure for makes (particularly the smaller ones) in areas where land is scarce or expensive, hubs and satellites to achieve coverage within a larger territory, or a growth in branch outlets in strategically visible

²⁸

See Section 2-3-4

locations.²⁹ All these particular cases require different treatment and support on the part of the manufacturer or national distributor; no matter how difficult, this is support which the latter must give if they are to maintain their networks. What also emerged from the fieldwork was a tendency for manufacturers to concentrate their strategic energies on the markets they consider to be most critical or valuable, targeting them to receive any major changes first, and leaving the less important markets to be upgraded at a later stage.

Evidence of the existence of this two-speed approach suggests an interesting paradox with regard to the European market; was a difference in treatment for large and small, central and peripheral, important and less important markets really an expected outcome of the Single European Market programme? The ideology behind the European Union's attempts to liberalise the internal market, as outlined in Chapter 2, was to create equality of opportunity for all Member States and all consumers to achieve greater economic well-being and competitiveness for all. This does not tally with a situation whereby companies maintain different facilities for different markets.³⁰ Indeed, a parallel can be drawn here with the progress being made towards European Monetary Union, which is itself evolving along two-speed regional lines, with the first Member States to commit themselves fully to a single currency making up a relatively homogenous central core of countries, with the others being left to follow suit at a later point. This two-, or indeed, multi-speed approach does appear to be a reality for the car industry in its attempts to introduce distribution chain change across the European market, showing that pragmatic solutions do not always quite match up to the idealistic expectations of the proponents of the Single European Market.

It does appear that the Single Market in cars in Europe, particularly as far as the strategic development of its post-factory area is concerned, is developing along a comparable path to that reported in the literature as having been followed by the manufacturing side of the industry at a global level (Womack, J., Jones, D. and Roos, D., 1990; Ohmae, K., 1985; Calori, R. and Lawrence, P., 1991).³¹ In the early days of internationalisation in the industry, the move was one towards pure globalisation, with manufacturers exploiting the economies of scale of their domestic mass production facilities to export to other markets. Indeed, this is a path which some manufacturers still follow to this day. In a way, this tallies with many of the predictions made for the large internal market in Europe, which were based around the efficiency benefits and potentially lower final prices that could follow from pure economies of scale.

Just as contemporary manufacturing theory and practice in the car industry has moved

²⁹ See Section 6-3

³⁰ See Section 2-4

³¹ See Section 2-2

away from globalisation towards a more tailored, localised approach, albeit in accordance with an overall strategic plan and with clearly-defined mechanisms for sharing between regions,³² so this appears to be the scenario that is also emerging for the post-factory area of the industry in Europe. Specific approaches will be adopted to fulfil to market needs at as local a level in the chain as is deemed either appropriate or viable; this will be combined with a more concerted and more informed (thanks to lean distribution) overview of the European market from manufacturer headquarters and with a definite means of harnessing and diffusing best practice as conducted by whichever partner in the chain.

"Whichever market you look at, they are all different, which is a pain in the neck for the manufacturing people",

Distribution strategies manager, global volume
manufacturer

Traditionally, this tailored approach has been associated with the rationalisation of the more unproductive structures, and this was what was predicted for the car industry following the completion of the Single Market. The advent of truly open competition would increase the competitive pressure on the most inefficient manufacturers, prompting some of them to seek alliances with other companies and others to fold.³³ It was also predicted that manufacturers would move to abolish the national distributor layer of the distribution chain, to conduct sales and marketing operations centrally for the whole of the European market, and to continue to reduce the size of their dealer networks.³⁴ This research has shown that none of these predictions have turned out to be particularly accurate, that some form of national level in the distribution chain will be needed for the foreseeable future, and that the retention of as full a dealer network as possible is an important factor in keeping the vehicles, parts and after-sales areas of the manufacturers' and dealers' businesses flowing. In other words, rather than the overall chain rationalisations that had been predicted, what has emerged has instead been a process of optimisation through the leaning of various activities within the distribution chain. As far as the overall number of manufacturers present in the European marketplace is concerned; this has actually increased rather than declined over the last few years,³⁵ although the pressure on the least efficient manufacturers will increase again come the next market downturn or the advent of a still greater degree of transparency and comparability thanks to developments such as the Single Currency.

³² See Section 2-2

³³ See Section 2-2

³⁴ See Section 2-3-4

³⁵ Mainly due to the arrival of the Korean makes

However, from the perspective of the totality of attempts to create a Single Market which has helped to frame this research, it is important to remember that the ultimate influence of the European legislative framework on the shape of the industry is very difficult to quantify. It is thus hard to ascertain whether a sectoral development could be attributed as a direct consequence of the workings of the Single Market programme, or whether it would have occurred anyway as a result of global competitive pressures facing the industry. For instance, the emergence of the global manufacturing system depicted in the literature³⁶ was only partly due to the flexibility of the lean production system enabling short, tailored production runs to be conducted efficiently; it was also motivated by political considerations, particularly on the part of the Japanese manufacturers who established assembly facilities in Europe partly to circumvent tariff barriers against their products. The question remains as to whether, had these trade barriers or more recently the threat of their renewal not existed, the Japanese manufacturers would have moved so quickly to build factories in Europe. Similarly, had the European Commission not moved to replace the remaining national quotas and VERs against Japanese imports with a Europe-wide arrangement as part of opening up the Internal Market, it is doubtful that the Japanese manufacturers would have been able to move into the European market so fast.³⁷ It can be concluded that both factors, and the interaction between them, played their parts: global manufacturing logic suggested that a base on the European continent was a competitive necessity, and at the same time the fear of being shut out of the trading area and the replacement of the national trade barriers with a pan-European arrangement acted as an extra spur to hurry the process along. One interview respondent thought that

"the Single European Market has been helpful as part of the competitive environment, but it has not been the most dominant pressure on the industry; this has been and will continue to be the competition from the Japanese manufacturers;"

Pilot interview with policy director of UK trade federation

Similarly, the question that can be posed is whether, if the Single European Market, including a common currency, etc. had already been completed, the post-factory area of the European car industry would have continued to develop along the lines that have been suggested. For example, on the topic of specification variations,³⁸ it is impossible to measure exactly to what extent national or regional specifications do need to differ to take account of local tastes and requirements, to what extent the differences are being sustained

³⁶ See Section 2-2

³⁷ See Section 2-5-2

³⁸ See Sections 2-5-1 and 3-3-3 of the literature and Section 6-2-4 of the fieldwork

by the continued lack of a single fiscal regime across Europe, or to what extent they are the result of deliberate manufacturer product and pricing policies to maintain market fragmentation. Questions like these are impossible to answer for certain and, as far as this research is concerned, it can be concluded that the developments observed and tested in the fieldwork have emerged in response to the continued reality of a European market still diverse in both its legislation and its people, and not as part of any grand scheme intended to operate in a truly liberalised internal market. Nevertheless, the facilitating role played by the European Commission's efforts to free up the market should not be underestimated; had the Single Market programme not existed, it is highly unlikely that many of the developments in distribution chain activities observed during the fieldwork would have occurred as rapidly as they have. In other words, the legislative measures adopted over the last few years to open up the internal market in cars do indeed seem to have had the effect of accelerating the rate of change in the sector. The ability and willingness of companies to introduce change will necessarily be a function of their perception of the suitability of the trading environment.³⁹

9-2-6 AN ENDURING ISSUE ...

Finally, many fieldwork respondents commented that the need for an efficient and effective distribution chain is not a new phenomenon; indeed, as the following quotation illustrates, some of the earliest industry leaders were acutely aware of the competitive necessity of satisfying their customers.

*"The only foundation of real business is service. A manufacturer is not through with his customer when a sale is completed; he has then only started with his customer. In the case of an automobile, the sale of the machine is only something in the nature of an introduction. If the machine does not give service, then it is better for the manufacturer if he never had the introduction, for he will have the worst of all advertisements - a dissatisfied customer."*⁴⁰

Many of them were also convinced that this critical concern for the functioning of the

³⁹

This point was precisely the one which emerged from the third research question - see Section 9-2-3

⁴⁰

Henry Ford, quoted in *"Ford in Europe"*, corporate brochure

distribution chain is not a matter of short term interest maintained out of a desire by all chain actors to make extra profit wherever possible, but genuinely an essential part of market competitiveness.

"Distribution will be the major differentiator for the manufacturers; it will be even more important in the year 2000 than it is now."

Chief Executive, UK trade federation

9-3 CONCLUSION

This chapter has returned to the three central hypotheses of the research, which were first framed in Chapter 4, and has concluded that, on the basis of the fieldwork conducted throughout the research project, it is possible to confirm all three of them. It has also debated the findings briefly against the established wisdom of the 'lean' paradigm as summarised in the literature review and also within the context of continued moves to create a Single European Market in cars.

The fieldwork programme has discovered a European industry conceptualising and implementing changes to their distribution systems which can be considered to constitute lean distribution, or at least steps towards the ultimate goal of putting in place a fully lean component supply - manufacturing - assembly - distribution chain.

However, this willingness to embrace the lean paradigm will only be part of the competitive armoury that all within the industry will require to meet the challenges that will face the sector in the future. As was mentioned briefly in Chapter 1, voices from all spectrums of European society are starting to call for a fundamental re-evaluation of the role of the motor car (and in particular those powered by internal combustion engines) within the overall transport system. The final chapter discusses in more depth some of these issues, which are themselves starting to have a considerable impact on company thinking, and thus ultimately on future manufacturing and post-factory chain strategies.

CHAPTER 10

RESEARCH REVIEW AND FUTURE SCENARIOS

"The car has been through crises before. There have been oil crises from time to time ... there have been financial crises ... there have been safety crises and emissions crises ... and now we have a crisis of faith, in which people who forget how much they owe to the car dwell on how much they have given up for the car. They have not the vision to see how the car might and should evolve; instead they are ready to prey for those who pretend to hasten the evolutionary process."

LJK Setright, Car Magazine, September 1995

10-1 INTRODUCTION

This final chapter puts forward an assessment of the preceding research and discusses a number of related avenues for future research based around the likely future evolution of the post-factory chain of the car industry both in Europe and further afield.

It is divided into three sections; the first reviews briefly this research, considering its strengths and weaknesses and the extent to which its findings may be applicable to other situations. The second section moves on to propose some suggestions and modifications which could be incorporated into further research conducted within the same frames of reference as employed here. Finally, the third section looks at the wider picture of influences currently or imminently impacting on the sector, and explains how there are many areas in need of detailed exploration, areas which are set to grow in importance both for the manufacturers and for the users of cars. Whilst this research has shown that there are areas where manufacturers, national distributors or dealers can make immediate contributions towards the optimisation of the current distribution system, it has also turned up indications that far more far-reaching and fundamental changes will sweep through the sector, changes which will need to be evaluated both by academics and by the industry itself.

10-2 RESEARCH REVIEW

As the preceding chapters have demonstrated, there is no single clear-cut conclusion to be drawn regarding either the evolution of the car industry distribution chain or the continuation of the process of European integration, but rather a myriad of scenarios and caveats relating to different actors and different markets. For instance, far from easing the task of companies trading internationally, the Single European Market appears to have thrown up a considerable number of complications to be overcome both by domestic and by outside companies. Certain developments can have both simplifying and complicating

effects at the same time. For instance, the relaxing of border controls has removed many obstacles to shipping products across the Union, but at the same time it has contributed to the re-emergence of socio-cultural regions cutting across national boundaries, which complicates the marketing task. What is certain is that the Single Market has not resulted in a lowering of standards and preferences so that every country matches a lowest common denominator. The diversity and cultural embedment of the car market will ensure that this will not be the case. This research has illustrated that the companies that will have reached full competitiveness in this difficult arena (through the introduction of some or all of the agreed range of ingredients which go to make up lean distribution) will certainly be able to consider themselves well armed to venture onto, or in some cases, to re-enter, the world stage.

Simply predicting a future of fragmentation and diversity may be seen as a simple route to take, and yet, as has been shown in the preceding chapters, it is precisely this fragmentation which is somewhat surprising in the context both of the car industry and of the European market with their expectations of standardisation and homogenisation. However, the strength of this work lies in its exploration of the emerging concept of lean distribution and the elaboration of a list of key ingredients which may be applied, albeit in different ways, in this fragmented sector.

However, despite the data produced by the lean distribution survey, it is worth reflecting on the predominantly qualitative nature of the research design, and particularly the potential for errors or bias to creep in. For instance, there is the possibility that only the most progressive or research-friendly chain actors responded any of the three surveys, thus introducing a degree of bias into the results. Similar concerns could be voiced regarding the interview sections of the fieldwork; to what extent were the interview respondents telling the truth? Were they expressing their true opinions, or merely the public relations 'face' of their company? Do the respondents actually fully understand all of the issues on which they were questioned? It is salutary to note that virtually none of the manufacturer or national distributor representatives interviewed actually had any recent experience of buying a car, and so were ill-equipped to actually understand the point of view of the consumer. One ICDP sponsor commented on his recent purchase of a car for his daughter;

"I hadn't realised the reality of buying a car, it was an awful experience."

Managing Director, publicly-owned dealer group, UK

As was detailed in Chapter 5, it is not possible to remove completely these and other

concerns from any research plan, and thus the research tactics employed inevitably revolve around 'damage limitation'. It can reasonably be expected that the status of the ICDP and the high level of interviewees reached will together have helped to reduce some of these potential inaccuracies. On the one hand, the respondents were aware that the project had already amassed a large knowledge base, meaning that any blatant public relations rhetoric would be relatively easy to spot, and on the other, a high level executive would be unlikely to be prepared to devote two hours of his time or more to each interview unless he was prepared to have a meaningful discussion of the actual issues which concerned him. Further methods here included the use of as wide a range of different sources as possible, so as to achieve triangulation of the findings. Background information was gathered from open and private documentary sources, and also from other areas of primary research conducted as part of ICDP. Furthermore, a wide range of fieldwork respondents was selected, thus enabling perspectives from the whole spectrum of the distribution chain to be gathered. Together, this not only enabled a synthesis from both ends of the chain to be constructed, it also provided a background against which any surprising or potentially dubious information could be judged. The calibre of the respondents and the strongly grounded character of the research design and fieldwork questioning were judged to be more than adequate to enable a credible and worthwhile portrayal of the sector to be made. The results were then fully tested against a far larger sample of high-level respondents in the lean distribution survey, and the outcome found to be entirely complementary with the rest of the research. Again, the process of presenting the research findings back to the participant organisations and others at meetings and workshops acted as a complementary feedback loop which would also enable inaccurate findings to be highlighted.

One further concept to be addressed in any research assessment is its transferability, and again, this potential is limited in research of this nature by the overriding role played by the specific context within which the research is based (Lincoln, Y. and Guba, E., 1985). The fieldwork picked up upon established industry opinion that the UK sector is more mature and therefore more advanced than the rest of Europe (and behind Japan and the USA) in the implementation of the lean distribution concepts, but discovered that this does not necessarily mean that all the other continental European markets will develop in exactly the same fashion due to their specific situations. This does not, however, mean that it would be immediately possible to draw firm comparisons between these markets and other regions not included in the study, such as South-East Asia or Latin America. Whilst the same basic procedures could be followed in another research project to analyse the post-factory distribution chains of the car industry in these regions, the specific lines of questioning would have to be adapted to reflect both the very different environmental backgrounds present in each market and also the local availability of material.

For instance, looking at the dealer sector, it seems that certain characteristics of the UK market, such as the decline of indigenous manufacturing, the arrival of new makes from overseas and the ready availability of capital were all factors behind the growth of dealer groups over the last couple of decades; many of which developed from selling cars produced by the many small UK manufacturers to selling those of the new foreign arrivals once the British firms had been amalgamated into others or had died out. A completely different combination of the factors at play might come to light to explain the development, say, of the dealer sector in Italy or Spain, let alone in America or in Japan. Whilst, as has been identified during this research, many of these sectoral influences are global in nature, the different market structures and environments of each region will ensure that the influences are likely to be felt and responded to in different ways in each one. This is not to say that the research as it was conducted here could not be repeated elsewhere, but merely that it must be stressed that the specific contextual backgrounds of the markets or regions under examination will play a major role in shaping the finer details of such a research design. If this research were repeated in the same markets, even using exactly the same respondents, it is highly likely that a different conclusion could be reached simply because of the rate at which thinking within the industry is advancing. For instance, developments such as the provision of information concerning a car or a dealer and the possibility to conduct the purchase via the Internet were considered as 'pie-in-the-sky' as recently as when this research started, and yet are now taken for granted, certainly in the US market. As shall be discussed later in this chapter, the implications of this and other developments on the manufacturer-consumer relationship will be profound, and as such warrant being researched in their own right.

10-3 FURTHER RESEARCH SUGGESTIONS WITHIN THE SAME FRAMEWORK

Based on the above discussion, it is clear that the most immediate suggestions for improvements to this research revolve around a wider exploration of lean distribution. An expanded survey would, given a bigger volume of returned questionnaires, enable a more detailed quantitative analysis of the material to be conducted, and would hopefully provide

a wealth of additional material. Similarly, a wider sample of interview respondents would enable a fuller and more assured picture of their different roles within the European market to be drawn up. Again, this sample would need to be tackled in at least as much detail as that employed in this research if the variety of experiences and expectations were to be fully captured. As the implementation of lean distribution is still some way from being complete in any of the markets investigated, a repeat survey could usefully be conducted in a couple of years' time to gauge the extent to which both perceptions of the concept and its implementation have evolved.

One further immediate suggestion related to building upon this particular research would involve an expansion or modification of its case study element. Given that the task of examining the distribution chains of every manufacturer present in the European market would be a mammoth one, a practical solution is to select a few specific cases for detailed investigation, as was the case here with Rover and Daewoo. A future study could usefully expand on the volume, specialist and non-domestic categories employed in this research by looking in detail at a selection of manufacturers or distribution chains from each category. In a situation where producer approaches to the European market appear to be fragmenting according to manufacturer and market as opposed to converging, such a research design would be well-placed to capture and illustrate this diversity, along with an examination of the environmental and sectoral forces at play to differing extents in these various categories. From this, it might be possible to draw up a forward timetable for the introduction of change within the sector, and along with it an assessment of which types of producer will find which kinds of change easiest to push through or to come to terms with.

Moving on to look at further research ideas which could be spun out of the topics covered in the preceding chapters, it is immediately clear that there exist a vast number of areas which could support valuable and fruitful research, such is the rich nature of the car industry and the competitive stakes of its post-factory area. The following discussion serves merely to highlight a few examples, and to illustrate that research could be conducted anywhere along the scale from the broad European, or even global perspective of, say, a manufacturer, right down to the local level environment of, say, an individual dealer.

For instance, one European-level area of investigation might be the extent to which nation state boundaries are indeed being replaced by more regional structures within the Union. This research identified instances where certain distribution chain activities have the potential to be more efficiently conducted on a regional basis across several markets; further research might seek to establish whether this is an emerging trend across several

manufacturers or areas, or whether there are further activities where the 'back office - front office' split might apply, or where different rates of change may be appropriate for different activities, different companies or different market areas. As this research has stressed on many occasions, there are many links in the distribution chain between producer and consumer. The many challenges that will face the industry in the future, including mature markets, overcrowded roads and the need for new technology to reduce the environmental impact of the production and use of cars will together mean that a consideration of this entire manufacturer - retailer - consumer system can only grow in importance.

All this points to the fact that the consumer/dealer end of the industry is and will continue to constitute a rich seam to be mined in future research. The issues at stake are not only interesting and valuable in their own right, they are also of crucial competitive importance to the manufacturers (and indeed to the rest of the industry) who will value all well-researched contributions to an understanding of the sector and of its likely future evolution. Despite the pragmatic, cautious and often pessimistic public faces of the manufacturers, it is safe to assume that, because of the competitive stakes at play, privately they cannot afford not to consider any number of reasonably formulated scenarios for the future evolution of the sector.

"The fact is that vehicles will always require servicing, there are a lot of safety, and environmental considerations related to them as well, so you will always have to have that provision, and the other element is the part-exchange consideration. We would tend to see things in terms of evolutionary change, how many dealers we would require, what would be the objectives for these dealers to achieve - all these factors may evolve over time into different numbers of dealerships, but we would not see anything radical at this point."

Marketing director, global volume manufacturer

There is great potential for immediate research to be conducted into the medium-term prospects for the franchised dealer system and into the consumer relationship to this system. Again, this research detected a certain fragmentation of selling approaches, possibly involving exclusive dealerships for high-price specialist and big-selling volume makes (at least in their more successful markets) only, and a differentiated approach for urban and rural areas, possibly with manufacturer-owned and multifranchise sites in the former and independent single and dual sites in the latter, each backed up by a tailored marketing and business support package. All the issues that are tied up with this, including aspects of group ownership of dealerships, territorial decisions such as the creation of

larger market areas covered by a hubs and satellites system and the prospects for branch outlets or other retailing formats are all worthy of more detailed investigation than was possible in this research. The same is true of the customer relationship to the system; areas of satisfaction and dissatisfaction with the current system, willingness to travel to buy a car or have it repaired or maintained, preparedness to wait for delivery and desires concerning financial and servicing packages are just some of the many aspects which require consideration.

All of these above-mentioned aspects will be thrown into even sharper relief according to the outcome of the next review of the European Commission's Block Exemption legislation, for which the process of consideration has already begun.¹ Research into the future shape of the regulatory environment for the supply of cars should, in some senses, take precedence over all the other areas as they will all be conditioned by any changes which are introduced here.

"The Block Exemption in Europe is a strange requirement, an artificial imposition on a system of operation that existed in this form anyway. It was put in place out of the suspicion that consumers were being excluded from the profits being made out of the system by manufacturers and dealers; everybody in the industry knows that, given the profitability of new cars and the money invested in service, this is patently untrue. The legislation is only there because of this suspicion."

Dealer planning director, global volume manufacturer

Another crucial area of influence at the European level are the moves towards the achievement of Economic and Monetary Union; many aspects of this programme will have profound implications for the operation of production and distribution chains both within the 'first wave' of participating markets and in the rest from both a practical and an economic point of view.² Research in this area should be an urgent priority for the industry and its commentators.

A further suggestion would be a re-examination of the external trade aspects of the Single Market, and in particular the possible consequences for the industry of the ending of the

¹ See Section 2-5-3

² For instance, from a practical perspective, accounting systems and billing procedures will be affected for all companies trading internationally, whether their market is part of the single currency or not. From an economic point of view, manufacturers will be obliged to review their pricing policies for the entire European market, which has knock-on effects for the running of the whole production and distribution system.

'Elements of Consensus' agreement with Japan in 1999, when all restrictions on imports of Japanese cars will theoretically be lifted.³ Will these makes respond with true pan-European models and pricing strategies, and what implications would this have for distribution chain structures? How will the indigenous manufacturers need to respond? All these issues have been neglected by the industry for some time now, and a further investigation would be very timely.

Of course, the industry is now a global one, and this makes a whole raft of regional comparisons possible. The usual comparisons conducted are between the European, Japanese and American ways of doing things, although as we have seen these are far from straightforward given the individual characteristics and histories of each regional market. Perhaps the most interesting regions for study, though, would be the rapidly-expanding markets of the world; under this heading could be included Eastern Europe, including the issue of how these markets might be integrated with their West European neighbours (especially in the event of an enlargement of the European Union), Latin America, China and especially the so-called 'tiger economies' of South-East Asia. Given enormous market potentials and a relative lack of cultural obstacles to rapid change apparent in the more mature markets, it will be particularly interesting to study the extent to which new lean distribution concepts will or could be adopted in such markets, or whether the European, American or Japanese experiences (and some of their inherent shortcomings) will simply be exported to or copied in emerging markets.

"Because of its maturity, Europe is not the market where the biggest investments will be made by the manufacturers in the future. These will come instead in the rapidly-growing markets of the Asia-Pacific region and elsewhere."

Chairman, manufacturer-owned National Distributor

Any of the above-mentioned topics would, because of their interlinkages within a crucial area for the future of the industry, make a highly interesting and valuable research project. Most could also be conducted without any fundamental modification to the frames of reference which defined this research. However, as the next section of this chapter discusses, certain fundamental environmental developments look set to 'shift the goalposts' of the industry, and therefore also of the research conducted into it.

³ See Section 2-5-2

10-4 LOOKING AT THE BIGGER PICTURE

This research has concentrated on the post-factory area of the European car industry, and in particular the structural and strategic linkages between customer, dealer and manufacturer, the regulatory structure of the European market and the influence of specific global sectoral factors, chief among them the rise of lean production and distribution techniques. However, all the ideas which have emerged from the research relate to ways of optimising the dealer-manufacturer relationship under the currently-dominant car-trading paradigm. If one takes a step back and examines the wider industry context, it becomes clear that several imminent environmental developments will together not only call this relationship between users and producers of cars into question, but will also determine both the way the market operates in the future, and also our attitude to cars and personal mobility in general. Therefore, these developments will need to be, and indeed are currently being very closely monitored both within and outside the industry. This section puts forward some scenarios for the future, and highlights several potential areas for further research relating firstly to the external environment of the car industry and market, and then to the likely consequences for the product and for the consumer interface.

10-4-1 A SHIFTING EXTERNAL ENVIRONMENT

As was mentioned in Chapter 1, the key influences on the industry over the next few years will be the further growth of environmental concerns and legislation, and the related 'socialisation' process of the car within its crowded, mature markets.

Environmental legislation has already had a significant effect on changing the nature of the car that we drive over the last 20 years; indeed, just within the European Union, the Environmental Policy area is widely viewed as one of the Commission's most significant successes and is certainly one of its more active areas.⁴

"A new car today emits 93% less Carbon Dioxide and 85% less

⁴ For example, see the catalytic converter debate in section 2-5-1

hydrocarbons plus NOx than an equivalent vehicle in 1970."⁵

As the quotation illustrates, advances in technology and materials have meant that the levels of pollution emitted by internal combustion vehicles have been cut dramatically, and manufacturers are actively applying a myriad of new or revived technical solutions to improving efficiency still further. In this sense, the product appears to be going through what could be termed its second childhood (Culture Technique, 1992).

However, this is far from the end of the matter. With the continued growth in the vehicle parc, air quality and emissions legislation related to vehicles has to become progressively tougher if overall targets are to be met. At the same time, environmental pressure groups and others continue (sometimes accurately, sometimes inaccurately) to highlight the damage being done to the planet by the use of the car. For instance, the OECD has estimated that the environmental damage of motor vehicles accounts for between 1 and 2% of the GDP of the developed nations of the world,⁶ and the European Commission that vehicles in Europe release 19 million tonnes of CO and 4 million tonnes of oxides of Nitrogen into the atmosphere each year.⁷ Any further significant toughening of standards would however, hit the limit of what is thought possible with the current family of petrol and diesel powered engines; ultimately, much lower- or even zero-emissions vehicles will be necessary. The lead here has already been set in California, which passed state legislation requiring 2% of the 1998 model year offerings of the 7 largest sellers in the market (Chrysler, Ford, General Motors, Toyota, Nissan, Honda and Mazda) to be ZEVs.⁸ This figure is to rise to 10% by 2003, when all other manufacturers selling in California (which means the Europeans amongst others) will be included. This law has provoked fierce opposition from the manufacturers since the day it was passed 5 years ago. They have maintained that the battery technology of the ZEVs was not sufficiently advanced, and also that the consumers would not want to purchase a slow electric car with a limited range when they could have a normal one instead. They considered it unfair that the state was trying to force 7 manufacturers to compete, using inadequate technology, in a new market segment that would not support more than 2 or 3 competing brands. Just recently, it seems that their complaints have been upheld, with a state-commissioned technological audit likely to conclude that battery and electrical transmission technology will not be sufficiently advanced for ZEVs to be brought to market until 2001 at the earliest.⁹ Despite the apparent victory for the manufacturers that a postponement of the legislation would

⁵ Jean-Pierre Reynier, secretary general of ACEA (European Automobile Manufacturers' Association), quoted in the *Financial Times*, 15/03/1995

⁶ OECD, 1988: "*Transport and the Environment*", Paris

⁷ Commission of the European Communities in the *Official Journal*, C138, 1993

⁸ Zero Emissions Vehicles

⁹ *Financial Times*, 20/11/1995

constitute, what is certain is that this issue is not about to go away, and that the race is very much on amongst the world's manufacturers to develop lower- and zero-emissions engines using whichever power sources are most appropriate, and it is only a matter of time before such stringent legislation becomes the norm in all the developed markets of the world.

These various options for engine designs and new power sources, ranging from radically different petrol-burning to electric to hybrid arrangements all need to be evaluated by those concerned from a number of different standpoints. Current European legislation concentrates on the 'exhaust pipe' emissions, CO, HC and NO_x, at the cost of actual engine efficiency, but in the future it could equally target CO₂ outputs via a 'carbon tax', which would force engines to become even more fuel-efficient, so both of these factors will be significant (ACEA, 1995). Then there is the overall 'environmental cost' of the particular solution; legislating for the introduction of electric cars would simply shift the emissions problem to the power stations generating the extra electricity needed unless they too are 'clean' sources. Similarly, new materials employed to make the car more 'environmentally-friendly' may actually do more harm than good if they are either in scarce supply, costly to produce in financial and energy terms, or difficult to recover and recycle. Such is the case with the current generation of platinum-based exhaust catalysts, and also with some of the experimental types of battery. Finally, the consumer and social angles need to be included; will the technical solution meet their needs in terms of power, range and convenience? If not, can they be persuaded to use it anyway? Will the power source be safe to use (both every day and, say, in an accident), easy to replenish and cheap to maintain and to dispose of? How much new infrastructure will be needed to serve these consumers and support the products? Currently, many suggested technologies, and especially batteries, score badly on all these points. All these are issues that are currently taxing the brains of the industry and the regulators, and which look set to be debated for a long time to come. All of them, too, look set to have significant implications for the future development of distribution chain structures and activities.

Many of these developments would have significant implications for the future shape of the car distribution chain: for example, manufacturers may choose to move towards a closer, more direct relationship with consumers who would more than likely be leasing the new generation of vehicles; dealers may need to invest in new battery charging and testing infrastructure, and would have to strike up new supplier relationships; users may be obliged to alter their vehicle usage patterns and their relationship with their garage. Whether these developments would conflict with, or be complementary to the emergence of lean production and distribution systems remains to be seen, although much of the evidence of this research would suggest the latter; namely that a lean system would help chain actors to

be more flexible to the changing demands of the market.

The other line of attack for legislators with environmental targets in mind is to seek to manage car usage; this is an area potentially even more sensitive than the environmental one mentioned above. Faced with impending major route saturation and urban gridlock in areas of all the developed markets, public perception is increasingly coming to the conclusion that space on our roads will simply run out if the growth of car usage is not checked (and similarly that there will be no green fields left if many more roads are built). Some form of road pricing, probably conducted electronically, is seen as an inevitability in Europe by early in the next century, but the task of implementing it is hardly one that will win votes for the governments concerned. The car manufacturers, given their contribution to the economy (and their often poor economic performance), constitute a very strong lobby; generations of consumers and the modern urban areas that serve them (out of town shopping centres for example) have grown up around the principle of freedom of movement and private, individual transport; and virtually all the freight transported in any Western economy makes at least part of its journey by road. So, whilst everybody hates being stuck in a traffic jam, nobody would be happy to see their individual right to own and use a car restricted, and for a country to do so would be to risk economic suicide.

Just as with the environmental pressures, finding a way to reconcile car usage with its surroundings involves adopting a more holistic view and examining its role within the context of the entire transport system. This means that public and private modes of transport should not be considered as alternatives at opposite ends of a scale, but should be considered together. So, attempts to manage the road use problem should revolve around ensuring that the existing infrastructure is put to the most efficient use possible, something which is patently not the case in most developed countries where new roads are built only to be jammed solid for four hours each day. Part of this means providing users with adequate information about congestion levels, parking availability, etc. which may influence their journey decisions, but the biggest contribution would come from ensuring that the different transport modes, both personal and collective, that go to make up the transport system complement each other efficiently and effectively. Whether it is train and lorry for a freight container, car, train and taxi for a business person or car and park-and-ride bus for a shopper, a growing proportion of even the most mundane journeys are, by definition, multi-modal, and as such it is essential that all these different modes be considered together and not in isolation as is currently the case. Currently, the average car occupancy in the urban areas of Europe is 1.2 people per vehicle,¹⁰ which clearly is far from efficient; improving matters may involve a range of solutions, such as a pool of hire

¹⁰ Mercedes-Benz / Swatch 'Smart' car publicity

cars to be shared for commuting purposes, which would all contribute to making a better use of the road space.

Again, the opportunities and threats for manufacturers, dealers and others in the current distribution chain, will be significant. Dealers may find opportunities to branch out into new service activities such as travel ticketing or taxi operations; equally, they may find their traditional activities coming under increasing threat from a whole range of new service providers as the number of private customers actually buying cars declines still further. It is clear that transport policy developments will definitely act as a spur to the further evolution of the car distribution sector in many European markets over the years ahead.

The sense of urgency for the industry, its commentators and those charged with formulating legislation to come up with workable solutions to these and other issues is illustrated by the ever more radical scenarios being put forward by pressure groups and other lobbies, particularly those of an environmental persuasion. For instance, in the UK, the Royal Commission on Environmental Pollution recently published an extremely wide-ranging report on the environmental impact of the transport system, and included some highly controversial targets and recommendations, a summary of which are listed below.

Figure 10-1

TARGETS AND RECOMMENDATIONS OF THE ROYAL COMMISSION ON ENVIRONMENTAL POLLUTION¹¹

TARGETS	RECOMMENDATIONS
Increase the proportion of journeys by public transport (in total passenger miles) from 12% in 1993 to 20% by 2005 and 30% by 2020	Increase fuel duty year-by-year so as to double the real price of fuel by 2005, and base the annual vehicle excise duty on the fuel efficiency of the car
Increase the proportion of freight transported by rail from 6.5% in 1993 to 10% by 2000 and 20% by 2010	Reduce planned spending on motorways and major roads to half its present level
Increase the fuel efficiency of new cars by 40% between 1990 and 2005	Introduce tougher emissions tests as part of the MoT test, which should become compulsory after one year of the vehicle's life as opposed to the current three
Cut the proportion of journeys in London using cars from 50% in 1994 to 35% by 2020	Reduce road tax for vehicles which already meet the more stringent pollution standards to be introduced in the next few years
Raise urban bicycle use fourfold by 2000	Ban sales of super-unleaded petrol because of its high content of reputedly cancer-causing benzene
Achieve full compliance with the World Health Organisation air-quality guidelines by 2005	Define severe government pollution limits, as well as temporary traffic-curbing measures for occasions when they are exceeded
Reduce road and rail noise	Introduce stronger protection for cherished landscapes and wildlife sites from road-building
Increase the proportion of scrapped vehicles which is recycled or reused from 77% in 1994 to 95% by 2015	Enforce speed limits more strictly and fit speed governors to lorries restricting them to 56mph
Freeze Carbon Dioxide emissions at their 1990 level by 2000 and reduce them by 20% by 2020	Give bigger subsidies to railways and tramway schemes
	Modify a Channel Tunnel - Scotland rail route to be able to carry standard freight containers
	Give government grants to local authorities to create a network of urban cycling routes
	Provide incentives to bus companies to switch their vehicles to natural gas
	Give government support for the development of electric vehicles
	Give noise insulation grants to people exposed to noise levels lower than those that now qualify

11

See Car Magazine, January 1995, and the Financial Times and the Independent, 27/10/1994. Royal Commission on Environmental Pollution, Eighteenth Report, Transport and the Environment, HMSO

Some quarters of the industry reacted very strongly to some of these suggestions, which they reckoned to be impossible, but the key point is that the car industry, rightly or wrongly, is now very much in the firing line concerning both its environmental and its social role. Scenarios and suggestions such as the above can only get more common right across Europe in the years ahead. There will therefore be a constant need in the years ahead for a significant body of well-grounded research to be conducted into all these areas, research which can accurately inform both the industry and the legislators. In a highly public forum, the task will be to cut through the rhetoric and the media hysteria to achieve a balanced view of these far-reaching matters.

10-4-2 A NEW WAVE OF PRODUCT INNOVATION

As has been mentioned above, parallel developments will mean that the actual nature of the product looks set to change somewhat. Public perceptions are starting to revolt against the idiocy, not to mention the waste, of sitting in a traffic jam each day with thousands of others all driving 2-ton cars with 150bhp internal combustion engines and sports-car handling. Whilst manufacturers have traditionally dismissed electric cars, claiming that, until the technology has been honed over at least two or three product generations, consumers will not want to drive a vehicle so dynamically inferior to their petrol-burning models, it seems to be precisely in these polluted, congested areas where small zero-emissions vehicles can, with the push of legislation behind them, come into their own. Experiments are already underway into pooled resources of electric cars in urban areas that would be available for users to hire for their trip to and from work.

This would tally with the notion, outlined in Chapter 1, that the traditional means of segmenting the car market according to size and engine capacity is becoming increasingly outmoded, and that cars will instead be categorised according to the use to which they will be put (Calori, R. and Lawrence, P., 1991). In a mature market situation, consumers are more likely to have more than one car at their disposal, and so will use different cars for different purposes. Thus, in the future, an electric car may be the norm for the daily commute to work, with a larger vehicle used for longer trips or for weekends. There would be significant consequences from this development for both product planners and marketers, and these are areas which could well be investigated. One argument could be

that cars will not need to be so highly specified as they are at the moment, at least not in certain segments such as the commuting cars outlined above.

"We do not need to produce automobiles that are liked by Auto Motor und Sport and the other magazines. Buyers will not be prepared to pay more for technical superfluity."

Chairman, manufacturer-owned National Distributor

This would have implications for the marketing of the product, which under the scenario of usage segmentation and an integrated transport system would risk becoming more utilitarian, or even commodity-like. Manufacturers or their dealers could reply by offering a more individually customised product, particularly in the case of the 'weekend' car, with features, styling items, colours, etc. decided by each consumer. Such a system would be made possible thanks to the flexibility of full lean production and distribution, but would in turn render the current marketing system based around fixed model specifications, lifecycles and facelifts, more or less obsolete. This situation might play into the hands of the European manufacturers, who have recently been demonstrating an increased willingness to innovate in both the product and in its distribution and marketing, something which must be due in no small amount to the status the car still occupies in the consciousness of the European people.

"In America, cars are sold largely on price, whereas in Europe, emotion is still the key. Otherwise, the only cars on sale would be VW Golf Diesels and Mercedes E-200Ds, both in black or grey only."

Sales company director, European specialist
manufacturer

Whilst these all constitute possible avenues for future evolution that could be explored, what is certain now is that the trend for cars to require less and less servicing will continue as technologies become more refined, no matter how the actual model ranges turn out. For instance, General Motors is now introducing gearboxes which are sealed for life, and which thus never need an oil change, and Ford has helped to develop platinum-tipped spark plugs good for 100,000 miles. With cars being more reliable, manufacturers and dealers can predict the service intervals and points when the car will come back to the network for servicing more accurately; if the service plans offered to customers cover the whole life of the car, the network will be able to predict more accurately the parts and consumables stocks that will be needed, thus enabling the whole parts system to become lean. However, whether this will ever be able to compensate for the loss of network income from the fewer

visits to the dealer that will be needed is debatable. This will inevitably bring with it the need for dealer network facilities to be rematched to an evolving set of customer requirements, a process which is far from simple, or cheap, for the manufacturers or dealers concerned, and may help to further damage the economic viability of the weaker dealers in a network.

These two points concerning marketing and servicing needs, along with the environmental, social and car use factors mentioned above, all point towards further change in the nature of the interface between manufacturer and consumer, namely the post-factory distribution chain that has formed the centrepiece of this research. For instance, a reduction in 'traditional' marketing activities would reduce one of the national distributor's areas of operation, possibly with the manufacturer or the dealer instead conducting more direct marketing techniques of their own to promote a more 'lifestyle-oriented' product. Similarly, a significant loss in service income for unexpected repair work would further damage the profitability of the individual franchised dealer if it continues in its current guise, and this would cause a knock-on effect for the national distributors in the form of lost parts sales. Developments such as these might be sufficient to remove the viability of the National Distribution franchise for a small independent operator, thus prompting a change of national franchise holding and/or retail site ownership into manufacturer hands.

10-4-3 TOWARDS A NEW MOBILITY SCENARIO

Despite the doom-laden predictions concerning the environmental impact of cars, and also despite the changes in life- and work-styles being brought about by the advent of new technology, including communications possibilities such as the Internet and home-working, it seems that the basic customer desires and requirements for a car, namely a combination of the aspirational and the functional within a specific brand image, are still relatively constant. What is changing, apart from the increased attention given to the use of the vehicle as mentioned above, is the level of expectation regarding the customer service that goes with the vehicle.

"Two key events have marked the last decade: a rise in quality and in product choice ... customers want to see the same improvements introduced across the whole distribution process."

Representative, European volume manufacturer

With product quality, integrity and reliability being largely taken for granted, and with the average customer being far more knowledgeable about the product (thanks both to the specific motoring media and to the Internet) than used to be the case, attention has turned to the services which surround it, including the quality and convenience of the dealer both in terms of buying the car and returning to have it serviced, the financial packages available to ease or enable the purchase and the after-sales support including warranties and maintenance packages. If needs regarding the product are relatively constant, then needs regarding these hitherto peripheral items have become far more important, and also far more individual. Customers now expect to have complete transparency and trust (and an absence of 'hassle') in their relationship with the dealer, they want to receive exactly the combination of specifications that suit them and their needs (formerly a problem; no longer so under lean distribution) and they want to have complete predictability of the cost of running the car throughout its life. This has been reflected in the significant growth of personal leasing plans and other rental-type schemes offered by the dealer networks and by others, with the subscribers to such arrangements increasingly moving to pay a fixed monthly charge for the complete 'mobility package' which could include the new car, its servicing and insurance and an agreed residual value at the end of the contract. It is not surprising that such a situation, where the user can acquire the car that suits his or her needs and aspirations with few of the traditional burdens of car ownership, is becoming increasingly attractive to certain types of consumer. For others however, the psychological aspect of actually owning the car that sits outside their window is not one that will be easily changed.

Two basic conclusions arise from this discussion, and both would be worthy of further investigation, confirmation or rejection. Firstly, a fragmentation of the total product offering is occurring, involving more customised production and individually tailored purchase or leasing packages. As mentioned earlier, this will have a significant effect on the way marketing and product planning is conducted. Secondly, this development, combined with the decline in service income already mentioned, is causing the role of the dealer to change from one of a traditional retailer and repairer into one of a mobility service provider, matching customers to car and support packages. In conducting this, the dealer will in the future be brought into competition with an increasing variety of competitors, such as specialist leasing and rental companies and Internet-based 'home-shopping'

providers. For instance, a convenient way for private owners to sell their cars in the future might be for them to be advertised at an Internet used car 'site': a video clip of the car could be included, along with security checks and even a link to a preferred financial services provider. With used cars also being more reliable, the potential for such a system to remove some of the risk from the used car purchase will limit the scope of the traditional dealer to add value by reassuring a less knowledgeable customer that they have made the right choice. This example goes to show that the number of routes to the consumer is also likely to fragment in the future into a myriad of different possibilities.

So, the car is in the process of being reconceptualised not as a product with four wheels, an engine and a status-enhancing badge on the back, but as a service, a source of individual personal mobility. This trend is not a new one, indeed it can be traced right back to Alfred Sloan's introduction of credit facilities at General Motors in the 1920s. Latterly, it has evolved as we have seen through the introduction of warranty packages, breakdown services and customer courtesy cars at dealers to the current situation, in which the majority of new (and nearly-new) private cars are or will soon be acquired through personal leasing packages which include lifetime guarantees and maintenance plans, not to mention upgrades to the latest model at regular intervals, free insurance and a mobile phone. The car will be delivered to the customer's door, and collected for maintenance, reparation or recycling at the end of its life. Gradually, as described above, the burden, both financial and psychological, of car ownership is being replaced for those who so desire by a monthly direct debit payment in return for 'hassle-free' transportation.

Taking this scenario a little further into the future, consumers would no longer buy a car from a dealer, but would instead subscribe to a tailored mobility package from a service provider. One point of contact with the provider would remove all the remaining 'hassles' such as registration, insurance and repairs present in the current system; instead one outlay could possibly secure the use of the product the consumer most needed, be it access to a pooled electric car and a charging system for the daily commute or a traditional estate car for weekends. Cars could be swapped at short notice to cater for immediate needs, or users provided with models with interchangeable bodywork. As part of a total package, such service providers could also be expected to supply complete journeys, such as parking space and train ticket for commuters, or route information, parking facilities, airline tickets and hire car at the destination for a trip abroad.

It is by no means unfeasible that just such a system could develop alongside the traditional dealer networks; in the longer term, it could well replace them. The key question for dealers is not how they could resist such a challenge, but how they could become part of it,

as many actors in the current distribution chain would certainly fancy their chances at becoming a fully-fledged service provider. Whilst the task may not require many of the dealer's traditional skills, it will certainly revolve around a need to know, understand and cater for a customer base, and this must be considered as the dealer's trump card. Just as a car manufacturer seeking to move into the production of electric vehicles will be obliged to become a lean 'process coordinator' assembling the inputs from many suppliers including some not previously connected with the industry, so a service provider will also have to possess a dealer's selling and repair expertise (although again possibly handling some unfamiliar products), and be able to interact with other specialists such as finance houses, electricity suppliers, providers of collective transport and travel agents. If dealers or dealer groups do not take up the challenge, other candidates to do so could include car rental companies, electricity companies or even the manufacturers themselves. Indeed, it is quite possible that this process could be instigated by a new arrival in the post-factory sector.

"Those who throw the grenades in are usually the outsiders."

Group planning director, independent National
Distributor (Interview Programme 1)

As mentioned earlier, such a scenario would have profound implications for the overall concept of the distribution chain as it has featured throughout this research. For instance, a system of pooled 'subscriber vehicles' would require a fundamental rethinking of the physical distribution process linking dealer, national distributor and manufacturer, right back to the production planning stage. Traditional instruments of chain control enjoyed by the manufacturers, such as sales and market penetration targets, would cease to function, as would the dealer - manufacturer (via the national distributor under a non-lean system) ordering process. It would also need to be decided which level in the chain would be legally and financially responsible for the stock of 'pool' cars both whilst they are being used and whilst stored.

Similarly, manufacturers would need to reevaluate how their brand image and values were represented in the marketplace, especially if the consumer's visit to the dealer forecourt became replaced by a periodic telephone call to a multifranchise service provider. It has already been suggested that traditional marketing practices may become superseded; if this is allied to a reduction in the need for such rigorous outlet network management (dealer standards and support), then the usual role of the national distributor may become further depleted unless these activities are replaced by new responsibilities. Service providers, which may well operate over much larger territories than the current individual dealer, may have no need of a national distributor in the traditional sense between them and their

supplier, as they may be able to take care of all such activities themselves. The debate as to whether the manufacturers would be happy to see their control over the marketplace removed in this way will be an interesting one; it may be that they will have no alternative but to go along with such a scenario if they are to survive. Again, this would raise the question of whether a national-level supervisory or liaison structure (if it is needed at all) would be the most appropriate, or whether sub-national areas or even 'Euro-regions' might become the norm in the future.¹²

On another level, the predicted move away from consumers actually having ownership of the product could be argued to constitute a rupture of this notion of a 'chain', as the psychological tie between user and manufacturer might no longer be as strong in the future for those consumers using a variety of vehicles to meet their needs. Manufacturers might counter that brand image will always remain as powerful a factor in the consumer's selection process as it is currently, but some of the predicted developments for marketing or brand image projection through outlets mentioned above indicate that this will be a matter for considerable debate in the future.

Whatever the outcome, the 'unbundling - rebundling' process put forward as the defining feature of current evolution by this research can be expected to feature strongly in the formulation of new strategies and structures for the future (ICDP, 1995 (j) and (k)). Equally, it is clear that there will be no single unique strategic or structural model which will be followed by the industry in the future, but rather a variety of different approaches involving different levels and actors both within and outside the distribution chain as we know it today. Just as became clear throughout this research,¹³ different manufacturers and markets will evolve at different speeds, meaning that, in the medium term at least, the emergence of all these developments will further complicate the task of those doing business across the European car market.

¹² For a discussion of these issues, see Tongue, A. in ICDP, 1995 (j) and (k)

¹³ See section 9-2-5

10-5 CONCLUSIONS

From the above, it can be seen that there are many challenges which the car industry, and in particular its post-factory area will have to face up to in both the medium and long term futures, and which therefore warrant investigation by interested parties. Some aspects, such as the evolution of the relationship between the user, the provider and the producer of the car, could follow on as a natural continuation of the research conducted during this project. Others, such as the way the car market might operate in a situation of restricted usage or with vehicles running a variety of power sources on the one hand, or the implications of these developments on our attitudes towards cars and personal mobility in general on the other, might require very different skills or approaches.

Two final propositions arising from the preceding research come to mind here regarding the future shape of the industry. Firstly, the task for car manufacturers will be to meet the economic, social and environmental challenges of the future, not by maintaining a system geared around the needs of the factory, but by putting the user of the product centre-stage. To achieve this, they will be obliged to replace fully the factory-push chain with a demand-pull system, with the manufacturer redefining its and its distribution chain partners' roles as catering for the desire for personal mobility in whatever form it might take. This will also involve overcoming the significant amount of cultural and environmental inertia that has been highlighted in this research and the practical short term demands of keeping the factory turning¹⁴ if this final step along the path towards the goal of a fully lean value stream is not to be postponed.

Secondly, the fragmentation of customer requirements and product offerings, combined with the achievement of lean production and distribution goals could actually be seen to be returning the industry to a new era of craft production. As has been discussed earlier, the customer orders that drive supply in a lean system, the flexibility under lean production which means that each car coming down the factory line can be different and the potential for integrated logistics to allow special edition models to be produced at the distribution centre or the dealer together all mean firstly that the car of the future can be customised, individual, unique, and secondly that the industry can indeed overcome the conflicting forces of standardisation and differentiation that have featured throughout this work. Add to this both the introduction of high technology materials and common platforms which

¹⁴ And with it the thorny problem of dealing with overcapacity in the industry

allow easy bodywork changes according to use, the tailored mobility packages specific to each consumer requirement, and an agile and responsive distribution system from factory gate to consumer (and back again), and arguably the result could be described as an industry which is starting to turn full circle, which is throwing off mass production and the principles of Fordism and which is returning to the craft system, the assembly of bespoke products for individual customers, which gave birth to so many of the great corporate names of today.

*"It's the very success of the car that has confronted us with the problems. If we're to keep a clear conscience about maintaining our personal transport, we've got to get the problems under control. Over the next 20 years, that's the biggest challenge of all."*¹⁵

¹⁵ Richard Parry-Jones, vice-president of Ford of Europe (in charge of small and medium cars), quoted in Autocar, 01/11/1995

APPENDICES

APPENDIX I

INTERNATIONAL CAR DISTRIBUTION PROGRAMME PARTICIPANTS (ICDP1)

- European Commission
- DTI, UK
- ZDK, Germany
- RMI, UK
- BOVAG, Holland
- GC Renault, France
- Castrol International
- Michelin
- Mobil Europe
- Unipart Group
- COFICA, France
- Walon SA
- HP Information
- Urban Science International
- BMW
- Fiat Auto
- Ford of Europe
- GM Europe
- Mercedes Benz
- Nissan Europe
- PSA (Peugeot/Citroën)
- Renault Automobiles
- Rover Group
- Saab Automobile
- VAG
- Volvo
- CICA, France
- Inchcape Motors, UK
- Lex Service, UK

APPENDIX II

INTERNATIONAL CAR DISTRIBUTION PROGRAMME RESEARCH TEAM (ICDP1)

- **Chairman** Derek Whittaker
- **Global** Project team - Malcolm Harbour, Philip Wade, Professor Jonathan Brown
- **France** Thomas Chieux, working in facilities provided by L'Observatoire de L'Automobile
- **Germany** Klaus Zellmer at the Fachhochschule, Nürtingen under Professor Willi Diez
- **Italy** Leonardo Buzzavo at the University of Venice under Professor Giuseppe Volpato
- **UK** John Kiff at Cardiff Business School under Professor Daniel Jones
Andrew Tongue, University of Bath
- **Holland** Collaboration on logistics with Eindhoven Technical University
- **Sweden** Jan Hedman at the Marketing Technology Centre, Stockholm
- **USA** A team at MIT led by Martin Anderson
- **Japan** JADRI led by Professor Koichi Shimokawa, Hosei University

d) Over 50 []

Manufacturers represented:

2 *Do you represent any other manufacturers apart from **Citroën** at the address to which this survey was sent, and if so, which ones?*

3 *Did the dealership choose to represent **Citroën** at this site, or was the dealership approached by **Citroën**?*

a) Dealer chose manufacturer []

b) Manufacturer approached dealer []

c) Other (please state):

3.1 *If you chose to represent **Citroën**, could you comment briefly on why.*

Comments:

4 *Does **Citroën** divide its UK sales territory up into regional groupings of dealerships?*

a) Yes []

b) No []

c) Other (please state):

4.1 *If yes, which grouping are you in? Does this mean that you have links to other dealers which you would otherwise or previously not have had? Please comment.*

Grouping and comments:

4.2 *If yes, are these regional groupings a recent development, or have they always existed?*

- a) Recent development []
b) Always existed []

Comments:

5 *Approximately how many new and used cars do you sell each year? How has the ratio of new to used car sales been evolving over the past few years?*

New:

Used:

Evolution:

6 *Are any areas of promotional activity (as opposed to the day-to-day running of the dealership) left to the initiative of the individual dealership, as opposed to being stipulated or monitored by the manufacturer? If yes, could you name some of them?*

- a) Yes []
b) No []

Areas of activity:

7 *Are there any areas of marketing and promotional activity where you would like to have more say over the contents of a campaign (such as a launch programme or local advertising for example)? Please comment.*

Comments:

- 8 *Are you free to offer discounts at your own discretion, or is this strictly controlled by the manufacturer? If you are not free to do this, would you like to be? Please comment.*

- a) Free []
b) Not free []
c) Other (please state):

Comments:

- 9 *Do stipulations concerning marketing and promotional activity emanate from the national importing company, or directly from company headquarters in France?*

- a) From importer []
b) From headquarters []
c) A mixture (please comment):

- 9.1 *If stipulations come from both sources (answer c) above), has the balance between the two changed at all in the last few years, and in which direction is the general trend: towards the national importer level or the company headquarters level?*

- a) Yes []
b) No []
c) Other (please state):

Direction of trend:

- 10 *Does the dealer play a part in determining the service "package" that the buyer receives with the purchase of a car, such as warranties, breakdown cover, financial services, other forms of 'aftercare', etc.?*

- a) Yes []
b) No []
c) Other (please state):

- 10.1 *If yes, could you comment on this. For instance, is the dealer free to add or remove service features such as these independently? Are the contents of the car-accompanying package determined by the national importing company or by company headquarters in France?*

Comments:

- 11 *What extra features (if any) would you like to include for your customers if you were able to do so, and what new features (such as recycling arrangements) do you think might become a standard part of the "package" in years to come? Please comment.*

Comments:

- 12 *What other tactics do you employ to enhance the relationship between the dealership and your customers (such as newsletters, open evenings etc.)? Are strategies of this nature becoming more common, and how do you think this trend will evolve? Please comment.*

Comments:

- 13 *Would it be true to say that a customer's loyalty to a particular brand of car is stronger than their loyalty to a specific dealer?*

- a) Yes []
b) No []
c) Other (please state):

- 14 *Which national (or international) federations do you belong to (e.g. Retail Motor Industry Federation, SMMT, etc.) How long have you been a member?*

- 15 *What would be the most important services and facilities that each federation provides you with (such as information service, lobbying activity, etc.)?*

16 *Are you aware of the activities of CECRA, the European dealers federation?*

- a) Yes []
- b) No []
- c) Other (please state):

17 *Does a UK dealer have any cause to deal directly with the European federation, and if so, in what instances? Please comment.*

- a) Yes []
- b) No []
- c) Other (please state):

Comments:

18 *Do you think the role of European-level federations will increase or decline in years to come, and why? Please comment.*

- a) Increase []
- b) Decline []
- c) Other (please state):

Comments:

19 *To what extent is the general day-to-day operation of the dealership left to the dealer's own individual initiative (as opposed to being specified by the manufacturer)?*

- a) Dealer completely autonomous []
- b) Dealer has a certain autonomy
within specified guidelines []
- c) All aspects specified by the
manufacturer []

19.1 *If you answered b) above, where do such stipulations come from: the national importing company, or the manufacturer's headquarters in France?*

- a) National importer []
- b) Headquarters []
- c) A combination of the two []

19.2 *If you answered c) above, could you comment on what sorts of things are determined by each level.*

Comments:

19.3 *Has the balance between the national importer level and the headquarters level changed at all in the last few years, and if so, could you comment on how?*

- a) Yes []
- b) No []

Comments:

20 *Is it true to say that, in recent years, the manufacturers have been more prepared to listen to the concerns and opinions of the dealers than used to be the case?*

- a) True []
- b) Not true []
- c) Other (please state):

21 *Given the maturity of the UK car market, and the subsequent need for manufacturers to maintain the loyalty of their customers, is the relative power and influence of the dealer vis-à-vis the manufacturer set to increase still further, or will the manufacturers instead seek to strengthen the control they exert over their distribution networks still further?*

- a) More influence for dealers vis-à-vis

- the manufacturers []
- b) More manufacturer control []
- c) Other (please state):

21.1 *Could this then lead to manufacturers and distributors adopting more of a 'partnership' approach in the future?*

- a) Yes []
- b) No []
- c) Other (please state):

22 *The European Community's Block Exemption governing the selective distribution of cars is currently being renegotiated. Do you believe that any changes will be introduced in the way cars are sold, and if so, could you comment on what these changes might be?*

- a) Yes []
- b) No []
- c) Other (please state):

Comments:

23 *From a dealer's perspective, would you like to see the system of selective distribution used in the car industry changed in any way? If so, could you comment on how? For instance, would you like to be able to sell several competing makes or models under the same roof?*

- a) Yes []
- b) No []
- c) Other (please state):

Comments:

24 *On a purely subjective basis, do you think the ideal system of distribution would*

therefore be an exclusive one, a non-exclusive "supermarket-style" one or a mixture of the two?

- a) Exclusive []
- b) 'Supermarket-style' []
- c) A mixture []

25 *Which direction do you think automotive distribution is actually moving in, one of more powerful, independent, dealer groups selling several makes of car at once, or one of more tightly controlled, perhaps even manufacturer-owned exclusive outlets?*

- a) Independent dealers []
- b) Manufacturer-owned outlets []
- c) Other (please state):

And finally...

Can you think of anybody else, either within your organisation or working for Citroën, who might be interested and willing to answer a similar set of questions to these (either in the form of a questionnaire or an interview)? Any possible contacts which would help me further this piece of research would be very much appreciated. Would you be interested in answering a further set of questions? Please indicate also if you would like to receive a report of the results of this survey.

Thank you for taking the time to fill in this questionnaire.

APPENDIX IV

FRENCH RENAULT AND PSA DEALER QUESTIONNAIRE

Nom de la concessionnaire:

Adresse:

Numéro de téléphone:

Nom du destinataire:

Veillez répondre aux questions en cochant les cases et en ajoutant des remarques. Bien sûr, d'autres annotations peuvent être insérées n'importe où sur les feuilles. Les premières questions portent pour la plupart sur des détails précis; par contre les dernières sont plus spéculatives et hypothétiques. J'espère que vous les trouverez intéressantes.

- 1 *Est-ce que votre garage est un agent, une concessionnaire ou une succursale? N.B. Dans les autres questions de cette enquête, le terme "concessionnaire" comprend également les succursales, agents, etc.*

- | | | | |
|----|----------------------------|---|---|
| a) | Agent | [|] |
| b) | Concessionnaire | [|] |
| c) | Succursale | [|] |
| d) | Autre (veuillez préciser): | | |

- 2 *A qui appartient la concessionnaire?*

- | | | | |
|----|-----------------|---|---|
| a) | Au constructeur | [|] |
|----|-----------------|---|---|

- b) A un(e) grand(e) groupe/société de distribution []
- c) A une famille/petite société []
- c) Autre (veuillez préciser):

3 *Combien d'emplacements (salles de vente, ateliers, etc.) dirigez vous? Est-ce que vous vendez d'autres marques de voitures neuves à cette adresse ou ailleurs? Veuillez préciser lesquelles.*

- a) 1 []
- b) 2-5 []
- c) 6-10 []
- d) 11-50 []

Marques vendues et lieu:

4 *Est-ce que le garage a choisi de représenter XXX à cette adresse, ou est-ce que le garage fut sélectionné par le constructeur?*

- a) Garage a choisi... []
- b) Constructeur a sélectionné... []
- c) Autre (veuillez préciser):

5 *Comment le constructeur divise-t-il son territoire de marché? Dans quel découpage figure la concessionnaire?*

Remarques:

6 *Est-ce qu'il existe des activités promotionnelles ou de marketing qui sont laissées à la seule initiative des concessionnaires, au lieu d'être spécifiées ou dirigées par le constructeur? Si oui, veuillez préciser certaines de ces activités.*

- a) Oui []
- b) Non []

Activités:

- 7 *Est-ce qu'il existe des activités promotionnelles ou de marketing sur lesquelles vous désireriez avoir plus d'influence que vous exercez actuellement (par exemple, publicité locale, programmes de lancement, etc.)?*

- a) Oui []
b) Non []

Remarques:

- 8 *Est-ce que la concessionnaire est libre de faire des remises sur les voitures neuves selon sa propre discrétion, ou est-ce que les remises sont dictées par le constructeur? Si vous n'êtes pas libre de le faire, désireriez vous l'être?*

- a) Libre []
b) Pas libre []
c) Autre (veuillez préciser):

Remarques:

- 9 *Est-ce que la concessionnaire joue un rôle dans la détermination des composants de "l'achat total" que le consommateur acquiert avec la voiture, tels que les garanties, les services d'assistance en cas de panne, les services financiers et les autres éléments du service après-vente?*

- a) Oui []
b) Non []
c) Autre (veuillez préciser):

- 10 *Quelles autres mesures utilisez vous pour renforcer les liens entre la concessionnaire et ses clients (par exemple, bulletins, journées "portes ouvertes", etc.) Est-ce que telles stratégies deviennent de plus en plus répandues dans ce secteur? Comment voyez vous l'évolution de cette tendance?*

Remarques:

- 11 *Est-ce que la fidélité du client est plus forte envers la marque de la voiture qu'il possède qu'envers la concessionnaire où il l'a achetée?*

- a) Oui []
b) Non []
c) Autre (veuillez préciser):

- 12 *Est-ce que vous appartenez à des Fédérations (nationales ou internationales) ou à des Groupements des concessionnaires? Lesquels?*

- 13 *Quels sont les services principaux qu'offrent ces organismes (renseignements, représentation, etc.)?*

- 14 *Est-ce que vous êtes au courant des activités de la CECRA, la fédération européenne des concessionnaires?*

- a) Oui []
b) Non []
c) Autre (veuillez préciser):

- 15 *Est-ce qu'une concessionnaire française a lieu d'entrer en contact avec la fédération européenne, et sous quelles circonstances?*

- a) Oui []
b) Non []
c) Autre (veuillez préciser):

Remarques:

- 16 *Est-ce qu'une concessionnaire possède aujourd'hui plus de contrôle sur l'opération quotidienne de son garage que dans le passé, ou est-ce que les constructeurs cherchent par contre à renforcer l'influence qu'ils exercent sur leurs réseaux de distribution?*

- a) Concessionnaires ont plus de contrôle []
- b) Concessionnaires ont moins de contrôle []
- c) Pas de changement []
- d) Autre (veuillez préciser):

- 17 *Est-ce que les constructeurs font aujourd'hui plus d'attention aux opinions et aux soucis de leurs concessionnaires que dans le passé?*

- a) Oui []
- b) Non []
- c) Autre (veuillez préciser):

- 18 *Vu la maturité du marché d'automobiles en France, et donc le devoir des constructeurs de sauvegarder la fidélité de leur clientèle, est-ce que la marge de manoeuvre et l'influence des concessionnaires vis-à-vis de leurs constructeurs sont destinées à augmenter davantage dans les années à venir, ou est-ce que les constructeurs vont plutôt chercher à renforcer encore le contrôle qu'ils exercent sur leurs réseaux de distribution?*

- a) Plus d'influence pour les concessionnaires vis-à-vis
les constructeurs []
- b) Plus de contrôle des constructeurs []
- c) Autre (veuillez préciser):

- 18.1 *Cettes éventualités pourraient-elles mener à l'adoption des relations "de partenariat" entre les constructeurs et les agents du secteur de la distribution automobile au lieu du système actuel plutôt "d'opposition"?*

- a) Oui []
- b) Non []

c) Autre (veuillez préciser):

- 19 *Le Règlement 123/85 gouvernant la distribution sélective des voitures dans l'Union Européenne est en train d'être renégocié. Croyez-vous que des changements à cette législation seront introduits en 1995, et si oui, lesquels?*

a) Oui []

b) Non []

c) Autre (veuillez préciser):

Remarques:

- 20 *De la perspective de la concessionnaire uniquement, souhaiteriez-vous voir des changements quelconques dans le système de la distribution sélective employé dans l'industrie automobile (par exemple, l'occasion de vendre plusieurs marques rivales à une seule adresse)?*

a) Oui []

b) Non []

c) Autre (veuillez préciser):

Remarques:

- 21 *Selon votre avis subjectif, resteront les concessionnaires de l'avenir fidèles à une seule constructeur, ou proposeront-ils plusieurs marques de voiture à leur clientèle?*

a) Concessionnaires exclusives []

b) Concessionnaires "multimarques" []

c) Autre (veuillez préciser):

- 22 *Quelles seront donc les conséquences pour l'ensemble des concessionnaires et agents en France dans les années à venir? Vont-ils, par exemple, assister à une grande diminution de leur nombre?*

Remarques:

- 23 *Quelle, selon vous, est la direction future de la distribution automobile: un ensemble de groupes et d'entreprises de distribution, indépendants, peut-être avec plus de pouvoir vis-à-vis de leurs constructeurs et peut-être aussi offrant plusieurs marques de voiture à la fois, ou une série de points de vente exclusifs, strictement dirigés par le constructeur, et peut-être même appartenant dans un plus grand nombre à ceci?*

- a) Concessionnaires indépendantes []
- b) Points de vente appartenant aux constructeurs []
- c) Autre (veuillez préciser):

Et enfin...

Pouvez-vous nommer quelqu'un d'autre, soit au sein de votre entreprise, soit travaillant pour le compte de votre constructeur, qui serait peut-être intéressé et disposé à répondre à une série de questions comme celle-ci? Je vous serais très reconnaissant de tout contact éventuel qui pourrait m'aider avec cette recherche. Est-ce que vous seriez vous-même disposé à répondre à une deuxième série de questions?

Je vous remercie d'avoir pris le temps de répondre à ce questionnaire.

APPENDIX V

A SELECTION OF RESPONSES FROM THE UK RENAULT AND PSA DEALER QUESTIONNAIRE

UK DEALER OPINION ON NEW AND USED CAR SALES

Is the balance between new and used car sales in your dealership changing and if so, in which direction?

	New sales increasing	Used sales increasing	No change
<i>Renault dealers</i>	37.5%	37.5%	-
<i>Citroën dealers</i>	30%	20%	20%
<i>Peugeot dealers</i>	17.6%	23.5%	35.3%
<i>Total</i>	25.7%	25.7%	22.9%

UK DEALER OPINIONS ON MARKETING AND PROMOTIONAL ACTIVITY

Are there any areas of marketing and promotional activity where you would like to have more say over the contents of a campaign (such as a launch programme or local advertising for example)?

	Yes	No
<i>Renault dealers</i>	37.5%	62.5%
<i>Citroën dealers</i>	50%	50%
<i>Peugeot dealers</i>	29.4%	70.6%
<i>Total</i>	37.1%	62.9%

	Yes	No
<i>Solus dealers</i>	43.8%	56.3%
<i>Dealers with 2-5 sites</i>	47.1%	18.3%
<i>Dealers with 6-10 sites</i>	25%	75%
<i>Dealers with 11-50 sites</i>	-	100%

UK AND FRENCH DEALER OPINIONS ON CUSTOMER LOYALTY

Is a customer's loyalty to a particular brand of car stronger than their loyalty to a specific dealer?

		Brand loyalty stronger	Dealer loyalty stronger	A mixture
UK	<i>Renault dealers</i>	37.5%	12.5%	37.5%
	<i>Citroën dealers</i>	40%	20%	30%
	<i>Peugeot dealers</i>	41.2%	41.2%	17.6%
	<i>Total</i>	40%	28.6%	25.7%
France	<i>Total</i>	42%	42%	17%

UK AND FRENCH DEALER OPINIONS ON SELECTIVE DISTRIBUTION (1)

From a dealer's perspective, would you like to see the system of Selective Distribution changed in any way?

		Yes	No
UK	<i>Renault dealers</i>	62.5%	37.5%
	<i>Citroën dealers</i>	50%	50%
	<i>Peugeot dealers</i>	58.8%	41.2%
	<i>Total</i>	57.1%	42.9%
France	<i>Total</i>	50%	50%

UK AND FRENCH DEALER OPINIONS ON SELECTIVE DISTRIBUTION (2)

Do you think that changes will be introduced as a result of the renegotiation of the Block Exemption?

		Yes	No
UK	<i>Renault dealers</i>	50%	50%
	<i>Citroën dealers</i>	30%	60%
	<i>Peugeot dealers</i>	41.2%	47.1%
	<i>Total</i>	40%	51.4%
France	<i>Total</i>	42%	58%

UK AND FRENCH DEALER OPINIONS ON THE FUTURE OF INDEPENDENT VERSUS BRANCH DEALERSHIPS

Which direction do you think automotive distribution is moving in; one of more powerful, independent dealers (and dealer groups), possibly selling several makes of car at once, or one of more tightly controlled manufacturer-owned outlets?

		Independent dealers	Branch outlets
UK	<i>Renault dealers</i>	37.5%	37.5%
	<i>Citroën dealers</i>	70%	20%
	<i>Peugeot dealers</i>	76.5%	11.8%
	<i>Total</i>	65.7%	20%
France	<i>Total</i>	50%	33%

UK DEALER OPINIONS ON THE NATIONAL DISTRIBUTOR / HEADQUARTERS POWER BALANCE

Do you perceive any changes in the balance between the National Importer level and company headquarters in the last few years?

	Yes	No
<i>Renault dealers</i>	-	62.5%
<i>Citroën dealers</i>	40%	50%
<i>Peugeot dealers</i>	11.8%	47.1%
<i>Total</i>	17.1%	51.4%

UK AND FRENCH DEALER OPINIONS ON MANUFACTURER - DEALER COMMUNICATIONS (1)

Is it true to say that, in recent years, the manufacturers have been more prepared to listen to the concerns and opinions of the dealers than used to be the case?

		Yes	No
UK	<i>Renault dealers</i>	62.5%	25%
	<i>Citroën dealers</i>	20%	80%
	<i>Peugeot dealers</i>	82.4%	5.9%
	<i>Total</i>	60%	31.4%
France	<i>Total</i>	33%	66%

	Yes	No
<i>Solus dealers</i>	37.5%	43.8%
<i>Dealers with 2-5 sites</i>	75%	25%
<i>Dealers with 6-10 sites</i>	75%	25%
<i>Dealers with 11-50 sites</i>	100%	-

UK DEALER OPINIONS ON THE POTENTIAL FOR PARTNERSHIPS (1)

Given the maturity of the UK car market, and the subsequent need for manufacturers to maintain the loyalty of their customers, is the relative power and influence of the dealer vis-à-vis the manufacturer set to increase still further, or will the manufacturers instead seek to strengthen the control they exert over their distribution networks still further?

	More dealer influence	More manufacturer control
<i>Renault dealers</i>	12.5%	75%
<i>Citroën dealers</i>	10%	90%
<i>Peugeot dealers</i>	35.3%	47.1%
<i>Total</i>	22.9%	65.7%

UK DEALER OPINIONS ON THE POTENTIAL FOR PARTNERSHIPS (2)

Could this then lead to manufacturers and distributors adopting more of a 'partnership' approach in the future?

	Yes	No
<i>Renault dealers</i>	62.5%	37.5%
<i>Citroën dealers</i>	30%	60%
<i>Peugeot dealers</i>	82.4%	11.8%
<i>Total</i>	62.9%	31.4%

APPENDIX VI

OBJECTIVES OF THE ROLE OF NATIONAL DISTRIBUTORS RESEARCH PROJECT

- To analyse the operations and assess the effectiveness of National Distributors within the European market.
- To examine the ways in which the roles and situations of National Distributors are changing in response to local, national and EU-level market environments, and to industry-specific influences.
- To identify the key factors and decisions governing company strategy in this area of distribution management as 'lean' thinking takes hold.
- To construct future scenarios for the structure and operation of 'National Distributors', if that is what they will be called in the future, within the distribution network.

APPENDIX VII

COMPANIES PARTICIPATING IN THE ROLE OF NATIONAL DISTRIBUTORS RESEARCH PROJECT

- **Manufacturers**
 - Fiat Auto
 - Ford of Europe
 - Mercedes Benz
 - Nissan Europe
 - Automobiles Peugeot
 - Rover Group
 - Volvo Cars Europe Marketing
- **National Distributors**
 - Bergé et Cia. (independent)
 - Inchcape plc (independent)
 - Nissan Motor Deutschland GmbH
(wholly-owned)
- **Other distribution
chain actors**
 - Castrol International

APPENDIX VIII

NATIONAL DISTRIBUTOR PROJECT DISCUSSION TOPICS

The following constitutes a brief outline of the topic areas used to frame the National Distributor project fieldwork discussions. As was discussed in Chapter 3,¹ the interview sessions were at most semi-structured, and so this list served merely as a guide for the researchers and the respondents to use if required. It was not possible to cover every topic in every session, but this was consistent with the research plan which wished to ensure that the respondents had every opportunity to discuss the matters which they considered important under the overall project heading in as much detail as they saw fit. Similarly, not all the sessions followed the order laid out below, although for the most cases, it was employed as the logical framework for the discussions.

1. HISTORY

- Historical background to the setting-up, organisation and environmental circumstances of the company's National Distributors

2. NATIONAL DISTRIBUTOR ORGANISATION AND MANUFACTURER INVOLVEMENT

Ownership

- Ownership of the National Distributors, including recent changes

Current company structure

- Organisation of the National Distributors, employment levels, etc.

¹See Section 3-2-3-2

3. NATIONAL DISTRIBUTOR ACTIVITIES

Distribution

- Supply and stocking systems
- Information systems
- PDI, transport logistics, etc.
- Parts supply
- Direct sales

Marketing

- Volume and mix objectives
- Brand image and positioning
- Advertising policy
- TV advertising and video promotion
- Market intelligence

Parts management and marketing

- Parts management policy
- Parts marketing

Dealer network

- Network management
- Manufacturer-owned dealers
- Dealer groups and multi-franchising

4. FUTURE DEVELOPMENTS AND THE EUROPEAN PERSPECTIVE

"Clusterisation" and the future

- Company organisation and outsourcing
- European market
- Territorial divisions
- More radical distribution methods

APPENDIX IX

SELECTED TRANSCRIPTIONS FROM THE FIRST INTERVIEW PROGRAMME

The following consists of three transcriptions from the first interview programme. These have been anonymised and, in some instances, edited in order to respect the confidentiality required by ICDP and its sponsors.

XXX (MANUFACTURER) - INTERVIEW NOTES

- National Distributor organisation: divided into two types: countries that produce, and countries that only sell. Sales area, service and parts area, financial/supporting area. The bigger the market, the more people they employ
- Legal entities in their own right - XXX is not really a legal entity, more a coordination point. XXX, XXX, XXX and XXX to a certain extent: the same set-up on the sales side, but manufacturing as well - little relationship to the sales side - just happen to be in the same country - sales and manufacturing not merged, but for PR purposes, "Mr XXX" there is the MD of the sales company, not the plant. The plant is, too, controlled from XXX. The smallest markets (Nordic) operate with a staff of around 30, XXX and XXX(sales company operations only), about 250
- The big NDCs are subdivided into districts (Germany - XXX, UK - XXX, France - XXX, Spain, XXX) - a field sales organisation, district manager, to liaise with dealers on a regional basis, do get some merchandising help, more a question of operational staff - at the moment, Ireland separate from Britain and Portugal from Spain, but this will change ? Big 5 markets (Britain, France, Germany, Italy, Spain), Managing Directors report directly to the XXX, the other 10 NDCs report to a group director, who in turn reports to the XXX. Used to be different in the past when had lots of different layers in between. If one of these other markets became sufficiently important/large, this might change so that they too would report to the XXX direct. 4 levels of management in this area at XXX - several fewer than there used to be... "lean and mean nowadays"
- Supply and stocking: Direct order entry system both for vehicles and for parts - dealer inputs order via dedicated terminal, and XXX monitors vehicle allocations, stock levels, etc. centrally - bypasses National Sales Companies to arrive directly at XXX - orders used to be processed by National levels when paper based, but now can go directly to manufacturing, via the order bank. Sales and manufacturing logistics group

manage sales order bank, orders go directly into plant. Sales company activity more the wholesaling of vehicles to dealers and working with dealers. Don't just order XXX and then decide where they are going to go, the whole process is now order-driven. Sales companies not concerned too much at all any more with the logistical side.

- Pan-European specifications: Still a lot of difference, try to minimise differences every time they launch a new model, but differ mainly in response to differing customer demands, taxation, competition. Each manufacturer in each market watches each other like cat and dog, with regard to what equipment the others are offering (air conditioning, etc.). "Whichever market you look at, they are all different, which is a pain in the neck for the manufacturing people." We have come a long way - there used to be a lot more variety. Now have far fewer entities (variations, trim, colour and option combinations) than used to be the case, used to run into millions. There is some limited scope for orders to be switched between countries, such as an Italian market car being diverted to another market, but it would depend on the equipment levels in the car. All the cars are legal, they could be sold everywhere, but whether they would meet customer requirements... 10 to 15 years ago, a car sold in Italy would not be legal in other countries, but this is no longer the case. It does place some limitations: if production is being planned two to three months in advance and during that period the Italian market goes sour, unless you can change specifications, you are not in the position to say that unless you can divert those cars to Germany... "We have a great deal of flexibility now in our production planning, which I think is a competitive advantage. Contrary to the XXX, we can change the specification, we can even change the colour that the dealer has ordered, just three weeks before it is actually built, and we could not do that in the past". That is the big disadvantage that the XXX have, with a pipeline of 6 months.

- Physical distribution also managed centrally. Some markets have one centre from which cars are sent to every dealer, in others dealers get supplied directly from the plant, essentially a region by region solution, purely whichever is the best logistical solution for hitting the dealer - according to a matrix, may go via two or three different points. Also the problem of passing through customs for non-EC markets

- Information systems: Two different IT systems are used, one: two-thirds of the dealers operate a dealership management system, covers all communication with XXX - vehicle and parts orders. The others have a PC-based system which replicates the integrated set-up - both firing orders up to two central locations, one for vehicles and one for parts. Two parts depots, one in XXX, and one in XXX. Some national-level facilities too, such as in XXX and XXX, but their activities are being reduced quite rapidly. Scandinavian markets each used to have one parts depot each, but these have now been consolidated into one outsourced facility, with the parts being sourced out of XXX. Only the physical distribution of the parts is handled locally or outsourced, the whole system is managed centrally. Other markets, XXX handles physical distribution itself too.

- Direct sales: Normally, direct sales are conducted to governments. Each of the 15 markets will have different traditions defining what categories of direct sales are accepted and which are not, and these differ by market. Policy here tends to be a national policy, and reflects what the competition is doing. If the opposition sells direct to rental companies, then XXX will too. The difference is that XXX does not own its

own dealerships in the way others do (like XXX), company not involved in retail distribution. Have a European dealer agreement which specifies what can and cannot do with regard to direct sales. XXX is building up the capability to handle pan-European, even global fleet sales (i.e. to a company trading globally) - this means coordinating the conditions, not XXX conducting the selling - XXX and XXX are at the stage where they can do this as they are, with the actual sales being conducted by the National Sales Companies in each market.

- Marketing: National Sales Companies have objectives for volume and for share, mix objectives by model, profit, expense, head count objectives, monthly and daily objectives: "We do like to try and keep track of what is going on." Major objectives agreed with the NSCs at the start of each year, with rolling "programme meetings" being held each month, where sales and production schedule for the next 12-18 months is planned, depending on market shares, total industry volumes etc., but objectives for each market change monthly too.

- Brand image not consistent, market leaders in XXX, leading importers in XXX, XXX domestic manufacturer has 60% market share etc., image depends on fortunes in that country. Market share varies between XXX % and XXX % in the 15 markets. So, image and positioning is different from market to market. Product and launch advertising done centrally, later advertising for current models done locally, to take account of market situation. When launch a new model, try to establish an umbrella image for that car, but that is subjected to modification over time as the segmentation in each market is different. Overall, corporate identity is consistent. "It is interesting that if you ask the question of XXX or XXX in each of our national markets: where do you think this company comes from, the answer will vary hugely by market."

- Advertising: Launch advertising is developed centrally with inputs from the markets, and they all have to use it. Usually three different campaigns, sometimes they manage to get it down to two. Usually a British version, and if lucky, can get German and rest of Europe into one campaign (otherwise two). Also different agencies Germany and the rest of Europe. So, even if do not end up with one campaign, the advertising is controlled and approved centrally. After a model has been in the market 2 or 3 years, we will probably see, particularly print media, more local modifications, not TV because it is expensive - TV campaigns usually are used in 2 or 3 markets ideally. Same agencies since XXX. Smaller markets do not usually feel constrained by having to use XXX advertising campaign because they do not have the resources to do otherwise, it would be an absolute waste of money for the minor markets to do their own advertising. Sometimes, however, they do feel constrained by having to work with one launch programme. Loyalty programmes done centrally, infrastructure central for all, video training material, launch material, etc. central. Brochures done centrally, apart from Britain which has XXX magazine. Market done centrally, virtually no market research done locally, some advertising research though. Statistical data, national industry comparisons, etc. come via NSCs. What competitors up to in the field more NSC concern. Participate in syndicated studies for consumer research. Customer satisfaction surveys done centrally, so can tell whether customers prefer service in Holland, UK, etc. So, is XXX a multinational staff? - a multinational mix, but local NSC will be called on to explain particular local problems

- Parts: More European in parts than in vehicles in terms of pricing, as the product is easier, less

variation, etc., and not priced in relation to what the opposition is doing so much, centralised too. Block Exemption parts stipulations will not change system significantly, will encourage others to move towards pan-European parts pricing. Parts marketing not a major activity, XXX brand particularly strong in France, less so elsewhere.

- Dealer network: Network policy decided centrally, executed locally. Bigger markets better resourced for network planning/management activities, and smaller may need more assistance. Appointments, etc. done locally. Courses in representation, etc. done centrally. "Our principal role in this area is in establishing and maintaining the policies that apply, they become the operating rules within which the local companies operate.

- Territorial segmentation: Do have dealer groups that operate on a trans-national basis, but not as much as had been predicted - found it harder than they thought it would be. Only in XXX are there public companies involved in dealerships, maybe one or two in XXX. Also most of multifranchise operations are British too, but UK suffers less from succursales.

- Dealers elect representatives who sit on the dealer council, who talk with the national level and relay back to their members. Do not currently operate at a European level in the interface with dealers - there is no official XXX European dealer council. Some dealers might get together in a European council, but this would have no formal links with XXX (unlike some of competitors, who do operate formal, European-level councils) This will continue to be the case as long as there is no single thing called Europe

- Multifranchising: Britain unique because multifranchising already operates here. Outside UK, different situation, e.g. in Belgium, the dealer agreement stipulates that the dealer is a XXX dealer within the European Union, which means that it should not be a non- XXX dealer within the Union, although there are a few exceptions. In future, decision would depend on critical size of territory within which dealer would operate, but XXX still remains concerned whether a dealer could act single-mindedly in their interest if they were also representing another make. As manufacturer becomes stronger, has greater ability to impose exclusivity on their dealers.

- Future developments: XXX has the global responsibility for everything up to and including XXX - size. Once the Single Market, single currency, etc. is in place, then further moves can be made in the direction of clusteral organisation of activities. "It would make sense to do things on a language basis, if the countries get together, which is not always the case." - may no longer need National Sales Companies under these conditions. Actually do some things on a regional basis - a technical hot-line, one from XXX handling Germany, Austria and the German-speaking part of Switzerland, one from Italy handling Italy and Italian-speaking Switzerland, France covers France and French-speaking Belgium and Switzerland - "not because we think this is right for the customer, but because this is the only way we can afford it". Also one Scandinavian technical line, handling all these markets in the different languages, the Spanish line handles Portugal too.

- Subcontracting of activities: most manufacturers subcontract dealer business management anyway, and most of them to XXX. Advertising also outsourced to agencies - this is longstanding. Dealership systems support could be regional too. "Anything that does not relate to the customer directly, where the customers may still have a national preference, you could really do on a regional basis, the non-transparent

things." "As long as the customer and country differences remain, we would still like a local presence, even if it is just 5 people controlling the work of 25 agencies or something."

- More radical distribution methods: "The fact is that vehicles will always require servicing, there is a lot of safety, and environmental considerations related to them as well, so you will always have to have that provision, and the other element is the part-exchange consideration." "We would tend to see things in terms of evolutionary change, how many dealers we would require, what would be the objectives for these dealers to achieve - all these factors may evolve over time into different numbers of dealerships, but we would not see anything radical at this point."

XXX (MANUFACTURER) - INTERVIEW NOTES

- All NSCs were independent to start with, before XXX bought out the importers in major markets. XXX, succession of independents, recently set up own company there. "Over a period of time, if the circumstances are OK, we would prefer to own our importers rather than stick with an independent." Will continue to have independents in the smaller and more difficult markets. Pattern still there outside Europe, own importers in XXX, XXX and XXX. Moving with XXX to set up a wholly-owned company in XXX. "Our trend would be toward manufacturer-owned importers". All the major European markets were taken over in the early 70s, previously distribution handled by independents, sometimes more than one in each country - historically, this was not necessarily done at franchise level, so in France, there were XXX distributors, then XXX separate, etc. XXX and XXX different - crises prompted change -manufacturing, markets opened up suddenly, etc. others linked to EC etc. "The EC has had quite a big effect on pulling out of CKD, and on the need for us to control our sales and marketing presence within those countries." Volumes much more marginal in smaller countries.

- XXX and XXX used to be the same company, but agreed that it was not working, and XXX set up own company. Many independent NSCs are significant retailers in their own right, whereas the factory-owned operations, even if they own some dealerships, tend to keep a more arms-length relationship with actual retailing. Many of the set-ups derived from the way cars were transported across borders, customs formalities, etc.

- Other major thrust of 70s changes was a move away from the wholesaling of relatively small numbers of cars to small markets. With the move to NSCs, some of the distributors remained as retailers (e.g. XXX).

- All of own companies set up in same way, reporting lines to XXX, etc., independents relatively similar formats, part of agreement with XXX.

- XXX, move from independent to manufacturer has not really meant a change in the number of staff, just general shift of better product and more information technology, less people fixing problems, etc., and

emphasis will continue to shift.

- Regional sections: none have regional offices, have regionally-based people. XXX used to have regional offices, but the last one was closed down about a year ago. XXX came closest to operating regionally in the late 70s, but it never took off.

- Supply and stocking: the XXX system is intended to be extended across Europe. Same mechanism where possible. About to launch this, next 6 months. Same principles for Europe; XXX a dotted line between XXX NSC and service functions which support it (finances, invoicing etc.). Europe must still operate a triangle: factory taking orders directly from dealers a major step. Local tax, European law etc., makes concept of direct invoicing of dealers from the centre still some way off, dealers not ready for it, nor market. Moving vehicles across borders will come naturally under the new system, will require a greater degree of central coordination, but the NSCs will retain a key financial role for some time yet. Average dealer size in Europe much smaller than in XXX, so it is important to have somebody in between to watch over their finances, credit, etc. "We see this as a seamless process. The NSCs will have parallel sight of any information relating to vehicles in the system, will be able to track them, and to stop them in the event of any financial problem." The invoices, even the registration documents for the vehicles will come from the NSC. XXX see no reason why the system should not work for independent NSCs, although for the moment they are concentrating on their own operations. They all operate like communications systems (apart from one - XXX), and so the major task is modifying existing systems to work in a better way.

- Orders switching between countries: XXX not looking at the system from the perspective of an order coming from a French dealer or the French NSC, but as a pipeline of supply taking in customer orders (not many manufacturers have adopted this mindset). But orders can be switched in the pipeline. Steps to get there: 1. get the stock in one place or less; 2. share the stock amongst the nations that are served by those distribution centres, 3. make the pipeline common, 4. stop tagging cars to nations, let alone dealers. Equipment differences: XXX will have self-levelling headlights across the range to satisfy the requirement for them in Germany. Specifications still differ, and XXX realise that some customer needs will differ, but reducing differences as much as possible. "Whereas in the past manufacturers were more or less forced into producing national specifications, what XXX are trying to move to now is a regional specification." Not trying to constrain availability by region: if a Northern customer wants air-conditioning, the car will have been engineered for it, so he can have it. "In essence, we want to take all those barriers away". Let the customer have what they want, even if it means having to wait for it.

- Distribution centres: some shared, some national at the moment, but the intention is to regionalise things. "This is a slightly organic thing" - current distribution centres, contracts, etc. not necessarily in the right place, strategically, to move vehicles, but a storage problem is not the same as a forwarding problem. Build to order means less storage, so the emphasis changes - some centres may need to be relocated to points where they make sense logistically for forwarding purposes. Forwarding centres will be regional. Some current operations are (e.g. XXX, which also supplies XXX and XXX, with Chinese walls inside). Centres will be controlled by the centre, operated by a logistics company. There are certain markets in Europe where centres do more than storage and forwarding - preparation (XXX, XXX). Some markets (e.g. XXX), dealers

do preparation. Ultimately, it will be the dealer's responsibility to finally prepare the product - the sold order arriving will be of sufficient quality that only the final pre-sale inspections, etc. will be necessary (because the cars will not be hanging around in centres). This makes quality more critical than if the dealers were operating with a buffer stock.

- Direct sales: manufacturers dug their heels in over this at the Block Exemption renewal, as it would be a nonsense not to have them for certain contracts. So, the capability exists for direct sales in all the markets, but they are relatively small numbers, primarily government and military, with small numbers going to hire fleets. XXX is different, with many fleets having moved to direct supply. A lot of the sales are handled by the dealer, who is rewarded accordingly. Very few actually invoiced and delivered direct, these being primarily the daily rental fleets. Direct invoicing is a factor, direct supply more likely to go through the dealers in the future. Each NSC can conduct direct sales within strict guidelines. Not something XXX are going to rush out and expand, but would be stupid not to have the opportunity. Less of an issue for independent NSCs as most of them are involved in retailing anyway (more a question of their internal accounting as to what is or is not a direct sale). International fleet sales, etc.: small but increasing number of companies want to negotiate centrally to one point of contact, but all of them will leave their local markets to handle the actual supply of the vehicle, as their local subsidiaries will need to have a good relationship with the local NSC for the sake of service, etc. - cannot avoid the local network. Few companies actually seeking single marque deals, but several are consolidating the number of makes used across Europe.

- Homologation activities: requirements still exist across Europe, and these, although less of a burden than they used to be, are still handled by NSCs. Still an issue in deciding which equipment to homologate etc., and a such makes the introduction of pan-EU specifications all the more difficult.

- Marketing: "Our ambition is to reduce the amount of unnecessary additional work involved in the creation of a marketing campaign for the European market." Recognise the big differences in traditions and styles, such as reactions to discounts, etc. Want to establish quality image for XXX, to make the product worthy of carrying a premium price, and to do that requires a consistency of approach. Took a cross-section of adverts from different markets, and found no great consistency of message. XXX had the most consistency. More information sharing between NSCs now, trying to get more cross-fertilisation of ideas, and to ensure that everybody works within more specific guidelines. Beginning to get greater brand image consistency now. Increased investment in direct marketing. Greater care in product launches, TV footage that can be shared, etc., or modified, but retaining stronger core image.

- Each market, within individual circumstances, can still create TV commercials locally, but they are being encouraged to do more than a local advert, but to create something that can be used, say in Spain, Portugal and across into Italy as well. More development work is done centrally, involving the NSCs in the process, spending more up front, but avoiding spending 7 times as much later by doing different adverts for different markets. (Menu approach). A difference between what trying to achieve strategically, such as brand image, awareness, etc. and tactical issues, such as the actual promotion of models, where NSCs tend to act more independently (even here, there is more sharing). " XXX " scheme - taking something that exists, that might have been produced by a neighbouring NSC, and adding to and improving it for another market.

- Media purchasing now coordinated to a greater degree than before. Currently evaluating the potential in this area that joint operations with XXX might bring - significant financial benefits.
- Market intelligence, forecasting: trying to move away from numbers coming in from each country to a system based on areas of probability, bringing everything to the table, examining the whole picture, and then what the possibilities, and the risks, might be in each market. This gives everybody a wider perspective - part of being more open and honest. Still a tense operation though... Changes in distribution organisation, capturing the pull from the market, will themselves enable better forecasting.
- Parts supply terms, etc.: terms of supply, like vehicle margins, do vary country by country. Starting to get more consistency across Europe now, driven by the need to get the part to the customer in the shortest possible time - making it as easy as possible for the dealer to get the part quickly, so as not to disappoint the customer who might be waiting, not penalising the dealers who might order parts only to find they were not necessary etc., in other words, not treating parts simply as a way of making profit, but taking a longer term view. Parts have become more competitive in the XXX market, partly as a response to the other suppliers - stressing the "genuineness" of the parts, and not over pricing them. In Europe, local taxation still plays a major role here - the customer needs to see value for money, so prices have to be adjusted to account for local VAT rates, etc.
- Dealer networks: all dealer networks managed nationally by the NSCs - their prime area of responsibility in the future, including all the accompanying activities such as business management, sales development, market representation, franchise placement, within an agreed strategy. Clear franchise policy established with all NSCs, and then local franchise plan drawn up for each one locally with help from the centre. Implementation totally local. Principle of "a market for every dealer and a dealer for every market": the dealer's viability enough to sustain the dealer there - this to be balanced with the need to cover territory, with big differences in larger countries. Dealer viability the driving force behind the guidelines. Looked carefully at volume and service throughput to establish shape of local market. Will be a single-tier network across Europe in the future too, the XXX sub-dealers have been put under notice, some will be upgraded to main dealers, and some will be dropped. "Unbundling" scenarios: XXX are encouraging people to invest in a market area whose potential has been recognised and quantified. If at the moment it is served by more than one dealer, then this may need to be rectified; the major investor will be supported, and encouraged to set up whatever is necessary to cover the territory. So, under this scheme, they would have no problem with a main dealer setting up satellite operations elsewhere within the defined territory. The concept would include a few service bays, a used car display, no more than a couple of demonstrators, fast-moving parts delivered daily from the main site, with the regularly-used special tools in place but the major-investment items at the main centre. The customer would deliver his car locally, with the dealer moving it as necessary. Used car sales would be encouraged as a profit centre for the dealer, but there would be no new cars on site apart from demonstrators. The reception would have interactive computer displays, and a salesman would then call on a customer if an interest was expressed. "We have a clear view of what we want." Like this, not straight-jacketed by the satellite operation being just a service branch. Would want main dealer to have total ownership of these operations ideally, certainly above 50%.

- Territories crossing borders: trying to ensure dealers not facing up to each other across borders: do examine what goes on at the interface of markets.
- Manufacturer-owned dealers: XXX own XXX dealer business in XXX, at XXX, but only to understand what goes on and to test ideas - just a one-off. Also own dealerships in a couple of other markets, but these too will act very much as pilot operations. Definitely no policy of seeking to expand wholly-owned retail chain. Also own some sites, which are independently managed, but these were generally born out of the need to secure some representation in high-cost areas. Would want to retain importer-owned sites if took over the NSC (provided they are performing properly), but would not seek to purchase the operations. Some of the XXX -owned dealers in mainland Europe were bought out because they had financial problems, but such decisions were not taken locally.
- Dealer groups and multi-franchising: only XXX which really has dealers representing XXX in more than one country. Others (XXX: XXX in France and UK, XXX: XXX and XXX dealers in Switzerland) almost accidents of history. There may be a few more examples in the future, such as XXX, which has bought a French dealer group. Multi-franchising regarded as inevitable. 3 years ago, allowed breaches of exclusivity in XXX, because were about to introduce the distribution changes which would mean fewer vehicles on dealers' sites, many of which were huge and located in city centres. Faced with the choice of being near to or away from the "motor alley" of a town, XXX would prefer to be near, because this is where the traffic goes. The following question was whether they could live with another franchise on the same site: yes given complete separation of the franchise (management, etc.). Of the XXX XXX sites which are now multi-franchise, none have seen a deterioration in XXX business, indeed, most have increased their sales, as the XXX facilities were redeveloped along with the rest of the site. In the other European markets, XXX is growing from a relatively smaller number of dealers, and so is in a position to demand exclusivity of its dealers, which it does. If the situation did arise, they would know how to deal with it as a result of the XXX experience. (Multi-franchising) "If everything else burnt down apart from the XXX business, could it still function, or is it dependent on something else? If it could then it would be acceptable." Can also work the other way round: it would be an opportunity for XXX to join say a XXX dealer whose site was too large. Are currently talking to a handful of XXX dealerships in Germany about developing multi-franchise sites. Generally, would prefer to have exclusive representation for as long as could maintain it. No prospect of retail linkage with XXX in the major markets. In XXX, where new company has now been set up, both companies previously had weak dealer networks, and are now setting up a number of joint dealerships, and the same is true in New Zealand. Highest-level policy decision to keep the companies separate in the marketplace.
- Future developments section: XXX used to have 5 regional offices, then 3, before the company realised that it could do without them. They were necessary when lines of communication different, travel times longer, etc. - the infrastructure is no longer needed, even if people "on the ground" are still necessary. In this way, the company interface with the dealer at a national level will have to continue, despite improvements in telecommunications, etc. But, provided that there are some people on the ground, and provided that the local needs of the market are taken into account in the promotion of the product, then it will

not be necessary to have a large office block and many employees. The question comes back to finance: is it viable to run an accounting, a credit control relationship with a number of dealers spread across thousands of kilometres, taking into account local taxation, etc. from a distance? Company has already tried having NSCs managed together, regions operating above the national level, etc., with varying degrees of success, but the key aspect is always the financial one. "The opportunity does not seem to be there at the moment, not that this means that it will not be there in the future." National cultural barriers are not just a motor trade thing... Clusteral/regional approach - "don't think that the relatively small gains that would accrue would be worth the trip". At the end of the day, these are not matters that generally concern the customer, who is looking for an attractive product and a good dealer. Market intelligence too: it would be very hard for a company to have a handle on what is going on inside a market from outside that nation state. Similarly, the interactive customer displays, etc. can be common (with the various languages), but the selling effort that goes with it must vary ("put across with castanets in Spain"). Driving force common, but the delivery adapted locally: "Esperanto is not the way out."

XXX (NATIONAL DISTRIBUTOR) - INTERVIEW NOTES

- XXX was originally set up in 1972, initially as a liaison office and type approval carrier, then replacing 4 independent distributors, each of whom had operated their own strategies, reflecting regional needs in different parts of XXX.
- The contracts with these private distributors were terminated on XXX. One of the distributors went on to be the importer for XXX, and took several XXX dealers with him. So, the task facing the new manufacturer-owned National Distributor was a very hard one at the start. This task was complicated by the product - "the cars looked like electric shavers, but the quality - price relationship was excellent, and they were fully equipped, which was unusual for XXX ". A highly competitive price was possible at the time because of the XXX relationship.
- Some of the former dealers were kept on for the new network, but usually they were relatively weak, with little business or financial know-how. This was because the independent distributors did not have any long-term objectives - 5 years was the contract norm. Fortunately, this was a weak period for the whole of the industry, and so dealers could be persuaded to change franchises. The target at the time was high quality dealers rather than quantity.
- From scratch in 1978, by 1992, turnover had reached XXX with XXX dealers. Unit sales had increased by 632.5%, compared to a XXX importers average of 464%, in a market which had grown by 47.9%. Net turnover in the same period increased by 1379.8%. Employment grew from 127 to 437 (930 including subsidiaries).
- Sees employees very much as a close-knit team, all skilled in trading. This is the biggest problem

when manufacturers become involved in distribution with their own people - it is not their area of expertise.

- Reckons that concentrating on the quality of the dealers has been the cornerstone to XXX success in XXX: ensuring that the dealers have a suitable sales territory where they will be able to invest themselves. XXX never invest in the dealers themselves, wanting the dealers to remain financially independent. Network has the highest turnover/dealer of all imported makes. The dealers were not leant on heavily to start with, and were not expected to start making profits straight away. XXX was also one of the first to establish dealers in XXX, which was a major advantage.

- The major steps for XXX European expansion were firstly to build solid ground for the future, and then to move towards a more autonomous Europe-specific product offering.

- Brand awareness is still a major problem in the XXX market (and others). XXX are, along with the others, still referred to as "the XXX ", much as the French and the Italian manufacturers were right up until the 1970s.

- Creating brand awareness from scratch, especially when the manufacturer is offering a wide range of products, is "the hardest thing in the world". The image carried by a small car may be detrimental to the image of the luxury models in the range. This is "the miserable situation facing manufacturers who try to operate in all sectors" of the market. The example was given of XXX and XXX, whose big cars both do not enjoy a very positive image. XXX also believes XXX fits into this category, as the link to XXX is too evident. This also explains why XXX are so keen to keep XXX separate.

- So, whilst XXX have been highly successful in XXX, they still have image and brand awareness problems.

- The parent company in XXX has left things very much up to the National Distributors in Europe, and has not sought to interfere. The latter may report to XXX 2 or 3 times a year, and provided that XXX is happy with the figures, the National Distributors will be left to get on with it. The same principle is operated for the various departments within XXX. "Most of the manufacturers who try to interfere with their National Distributors fail. Manufacturers cannot ever hope to be truly global. They must set targets and then let their people do their jobs."

- This has changed somewhat with the arrival of XXX Europe, and XXX does believe that XXX tries to interfere too much with the National Distributors. He also believes that XXX is wrong to try to concentrate too many of its activities in XXX, and also that XXX was also a bad idea - it is fine as a communication office, working at gearing the product to the European market, but it should not be involved in marketing or sales activities, which must remain local.

- Dealer networks: not many dealers are now prepared to change franchises, and fewer and fewer to invest, because of the lousy potential for any return. XXX are still handicapped in metropolitan areas, compared to their relatively strong countryside coverage, for the reason that they came to the game too late, after urban land prices had started to rise significantly. There are also now too many restrictions governing dealerships in city centres: opening a showroom would be easy enough, but a workshop is much more complicated because of emissions, access, the paint shop, etc.

- XXX sees this as a major problem for the new arrivals in the XXX market: they will find it almost

impossible to establish dealerships in the metropolitan areas of XXX, where the XXX manufacturers, with their long-established infrastructure, dominate. Even if they have the buying potential, the newcomers will have great difficulty in finding partners. The only solution he sees would be manufacturers investing in branch dealerships, although, "whether this is the right solution or not is another question".

- Supply and stocking systems: XXX system is "antique", with dealers ordering for stock. The dealer "puts his wet finger out of the window" and estimates demand in terms of colours, equipment levels, etc. Overall volumes are agreed yearly with XXX. Dealers are asked to fulfil their unit sales out of stock - 10% of their annual volume is moved this way. At the moment, XXX is working on a more "customer-oriented" system, which will encourage customer ordering and supply the car in 3-4 weeks (privately, XXX thinks this is still too long). The real handicap will remain the 30 days lead time from XXX.

- XXX reckoned that the introduction of new supply and stocking systems requires a major effort on the part of the manufacturers. Nevertheless, he is surprised that the European manufacturers do not make more advantage of their proximity to the market, and their consequent ability to supply cars quicker, as a competitive weapon against the Japanese, Koreans, etc., who will always have a much harder job.

- As for actual direct ordering: this could be conducted on the distribution centre in XXX, but the latter would still have to be able to provide a buffer against fluctuations in demand and sales. Stock would be removed from the dealers, but the cars would just be elsewhere - at the distribution centre (or at an intermediate level). This is the problem facing the manufacturers supplying from outside Europe. XXX admits that the ultimate target should be direct customer ordering to the manufacturer, but for this to work, both customer and salesman behaviour have to change - the customer must be trained to accept longer delivery times. Any intermediate storage between manufacturer and dealer is ultimately costly and risky - there is more chance for the car to be damaged. However, the further obstacle to the XXX manufacturers in achieving this is the continued sourcing of certain component supplies for the European factories from XXX - the bottleneck still exists. Again, this is something the European manufacturers should take more advantage of than they seem to do.

- Because of these handicaps, the XXX manufacturers therefore need a highly flexible system for the transferring of cars, and this in turn requires a big reduction in specification differences and model variants, which do little more than "irritate the customers". This in turn means fewer model platforms and a more accurate studying of the marketplace in terms of the equipment that is offered. Model ranges are still devised and oriented in accordance with what the opposition is doing, rather than directly for the customers. Specialist manufacturers will find it easier to work to longer lead times, as their customers are less flexible, and more likely to know exactly what they want.

- Because of its maturity, Europe is not the market where the biggest investments will be made by the manufacturers in the future - these will come in the rapidly-growing markets of the Asia-Pacific region and elsewhere.

- Orders switching markets: specifications still differ markedly between markets, primarily due to the persistence of national technical regulations. XXX believes that these will be harmonised, eventually... At the moment, he reckons that manufacturers can never really hope to meet all these requirements, "we cannot be

everybody's darling". Consequently, he thinks that manufacturers should concentrate on satisfying the 5 big markets, with the others just having to follow. If potential sales are lost in these markets, it is not such a problem as it would be in the big markets. An analogy was made here to the "Model T" principle. Big savings could be made in the harmonisation of equipment levels.

- A bigger role can be expected for XXX in the area of ordering and supply, but in return they should intervene less in marketing.

- XXX is trying to unify its information systems, but each country has developed in its own way, and according to its own needs. The XXX system was built up around the XXX Bank, a subsidiary of XXX. They are currently looking into satellite transfer of information with dealers. The major problem regarding information systems is that the dealers need to be of a certain size in order to afford the equipment, and also for it to be used to its potential. However, this may not take into account the fact that a small dealer may have a large share of his local market, and so merits "the full treatment". There is no direct link between the dealers and XXX.

- Physical supply: all cars (XXX, XXX, XXX) go to the distribution centre in XXX(60% by feeder service). Rail transport is rarely used, as it is still too inflexible. However, XXX doubts that companies will be able to rely on road transport in the long term. The problem with the move to customer ordering is ensuring that the lorries are full.

- All physical supply and logistics, together with PDI and the preparation of special models, etc. is handled by XXX, which is wholly owned by XXX. As far as the centralisation of all physical distribution activities in XXX, XXX reckons that this offers "sunshine and shadow" - it will not actually help in getting the exact car the customer wants to the dealer, as the dealers are still ordering for stock a long time in advance. XXX also handles the independent importer markets.

- Parts distribution: 5 depots are operated across XXX by private distributors in a 54%:49% joint venture with XXX. Next day delivery for urgent parts from XXX to the depots and on to the dealers. XXX is currently looking at whether these depots will be needed in the future - in theory they will not be needed, but if something went wrong in XXX, then the knock-on effect would be considerable. There is a definite degree of risk involved in changing the system, although this is difficult to evaluate. At the moment, the current system works well: dealers order to their local depot, which then puts the order in to XXX. The dealers are then invoiced from XXX in XXX. The result is, apparently, one of the best systems in XXX in terms of parts availability, because the depots are close to the dealers. The operators, being private (51%), are more flexible. Theoretically, further savings could be made from pan-European coordination, but they are impossible to quantify. Also inestimable is the effect on the customer or the dealer in terms of trust if things go wrong.

- Direct sales: XXX has very few fleet customers in XXX, and the buying conditions for the fleet market as a whole are "terrible". As to the prospect of pan-European central negotiation/ordering: the dealer (and therefore the National Distributor) has to be involved, otherwise who would sell the used car afterwards? "Selling the car in the first place is the easy bit." The XXX manufacturers are becoming more and more resistant to the idea of direct sales.

Marketing: cannot be fulfilled on a Europe-wide basis. "It will be another 30-40 years before Europe is really established."

- XXX is (should be) more concerned with looking after the corporate brand image, and secondary to that, looking for areas where different markets might "get together". Global car campaigns are impossible because of differing buying and usage mentalities. In a buyer's market, a high degree of local flexibility is essential.

- XXX was actually forced to learn this lesson the hard way: that markets will not necessarily follow the paths it suggests - its original ideas of how it was going to operate had to be modified.

- Advertising: one of XXX problems is that it conducts more product advertising than overall brand advertising. Consequently, XXX position as the most successful imported brand is not widely known.

- Once tried using film/video to improve communications between manufacturer and dealers: it failed completely.

- The XXX market is moving away from large television campaigns, and there have always been more possibilities for print media campaigns there. XXX investigated central media buying at a European level, but saw no major advantage in doing so - the financial savings were very small.

- Certain possibilities to operate centrally do exist: film production, photo shoots, etc. XXX likes the National Distributors to follow certain guidelines with regard to product advertisements (such as, why don't you use the same advert as the UK?), but the impression is that this is not always successful.

- XXX conducts other activities itself, such as car clinics (these are often too late!), too much customer research. Dealer comparisons are conducted for them by XXX.

- XXX believes that car companies usually undertake or commission customer research purely because they have no ideas of their own! Not that this is not necessary: an advertising agency is, after all, only as good as its brief.

- Parts management and marketing: parts pricing is essentially set relative to the opposition, and the emphasis is put on the more competitive parts lines, insurance-related parts, etc. The aim is for the dealer to be able to satisfy fully the customer's repair demands with the minimum parts inventory, but achieving this needs considerable logistics expertise.

- XXX differentiated between the marketing of parts and of accessories, reckoning that the two demand very different skills, and therefore also different people at dealer level. Accessories should be the task of the new car salesman, and, whilst the parts market is stagnating, there are still major profit opportunities in accessories. "Most manufacturers are not professional at all in this area." He pointed out that, whilst customers will haggle over the price of the car, they are happy to pay the list price for accessories. As mainstream cars grow more and more alike, people will look more to accessories to set their car apart. At the same time as working to reduce the number of model variants within a range, manufacturers must increase the size and quality of the accessories offer. Currently, this area is handled by the parts operation in XXX, but it should really be the task of the sales people.

- Dealer networks: targets for dealers are set jointly with XXX. Dealer development activities are the task of the National Distributor, acting in accordance with the overall manufacturer philosophy. A lot of

these activities will depend on the product strategy.

- Dealers need to cooperate more with each other, including those across national borders. Inevitably, this cooperation will come first in metropolitan areas. The scenario was suggested of several dealers possibly sharing a city centre showroom, with service being located in the suburbs, or of manufacturers becoming more involved in sharing the leasing costs of urban premises. All these suggestions would require a major change of attitude amongst the dealers to become more cooperative, for instance, there is no need for every dealer to have his own paint shop, or even used car preparation facility. XXX predicts that manufacturers will soon become more directly involved in used cars.
- Manufacturer-owned dealers: as many dealers as possible should be independent, with the manufacturer only becoming involved in problem areas. Such dealers often constitute direct competition to the rest of the network. XXX and XXX were cited as being not happy with their branch dealerships. Branches also suffer from the influence of unions, making them less flexible. XXX would prefer it that dealers cooperated more and retained their independence - this is a far healthier situation, and is in the interest of both dealers and manufacturers
- Mega-dealers: XXX questioned whether taking on many more franchises would actually save a dealer money. More administration is needed to cover all the makes, along with bigger facilities and more training. The major problem is how to manage and organise the workshop and the parts department (XXX was thinking along the lines of car supermarkets rather than multifranchise dealers). Reckons the customer likes exclusive dealers. The healthiest dealers are the medium-sized ones. Reckons that the time is up for the very small dealers, although manufacturers will have a problem maintaining coverage in rural areas if they fold. Similarly, he cannot see any real future for really large single-site dealers, as their profitability is terrible. He subscribed fairly readily to the "unbundling" scenario, provided that the main dealers are ordered to keep the outlying service facilities open to maintain coverage. Overall, his biggest concern is that his dealers should make a profit.
- XXX was convinced that manufacturers are now really thinking about the post-factory area. They have all changed their production systems, and have woken up to the fact that the distribution chain is where real cost savings can be made. However, the changes involve a big investment from all sides: the manufacturers in developing the new systems, and the dealers in training their staff and also their customers (this is less of a problem in XXX where the customers are more prepared to wait). Stock is the biggest burden in the current system, and XXX believes that changing the distribution system to eliminate it will bring a 25-30% cost saving for manufacturers.
- XXX believes that the place of the National Distributor in the chain is "unavoidable", even if its role will inevitably change. It will not really be involved in the ordering or distribution processes, but will concentrate more on marketing, collecting information and "gearing and steering" the dealer body. This role "must change and will change", and the name "National Distributor" will become redundant. He also believes that the time is almost over for independent importing operations (certainly in the bigger markets): some will quit of their own accord, and many others will be taken over. Nevertheless, this path is still risky and potentially costly for the manufacturers, and they will inevitably have to concentrate on the more important

markets, letting the others follow ("otherwise they will not survive").

- XXX is changing its distribution chain as quickly as it can, and is reducing the number of platforms, etc. XXX reckons that the XXX manufacturers are still somewhat ahead of the rest on this latter point, and that the XXX have yet to really exploit this potential in their operations (which could be enormous for a company like XXX).

- He sees the car of the future being much simpler to produce as manufacturers cut down on over-engineering. Why do they need to use a complicated technical solution for their everyday models when a simple alternative would be adequate. "We do not need to produce automobiles that are liked by Auto Motor und Sport." Special models, sportscars, etc. will still push technical excellence, superior performance and handling, etc., but this is not necessary for the more "normal" models. Instead, manufacturers should concentrate more on styling and colours to differentiate their products. "Buyers will not be prepared to pay more for technical superfluity." This ties in with environmental and road-use considerations (which were discussed at some length subsequently) and the overriding need for society to create a better combination of individual and collective transportation.

APPENDIX X

COMPANIES PARTICIPATING IN THE SECOND INTERVIEW PROGRAMME

- **Manufacturers** Ford of Europe
Vauxhall Motors
- **National Distributors** Fiat Auto UK (wholly-owned)
Renault UK (wholly-owned)
- **Dealer groups** Ixion Motor Group (private)
Lancaster plc (public)
Perry Group plc (public)
- **Trade federations** National Franchised Dealers Association
Retail Motor Industry Federation
Society of Motor Manufacturers and Traders
- **Impromptu interviews** Daewoo Car Centre (branch outlet),
Coventry
Lex Volvo (group outlet), London
Marshall Car Centre (private
multifranchise site), Cambridge

APPENDIX XI

SECOND INTERVIEW PROGRAMME DISCUSSION TOPICS

The following constitutes a list of the topic areas discussed in the final interview programme. None of the interview sessions actually covered all these topics, nor did they work through them in a chronological order. Instead, the lists were used, as in the National Distributor fieldwork above, as a guide and aide-mémoire for respondents and interviewers, and the discussions were thus able to flow to cover whichever areas the respondents considered most interesting or which they were most prepared to discuss. Many of the more specific factual and background information questions were devised specifically by Professor Shioji to fill in his lack of knowledge of the UK market. In some instances, these questions were answered by the researcher, and thus did not need to be asked again in the interviews. Other matters which were raised during the sessions were answered by the provision by the respondents and the researcher of documentary information such as annual reports and ICDP papers. Interesting topic areas were pursued in as much detail as was appropriate for the situation, with some questions therefore going beyond the restrictions of these categories.

1. QUESTION LISTS FOR MANUFACTURERS AND NATIONAL DISTRIBUTORS

Dealer network

- Name, models sold and brief history of each of the franchises operated
- Number of dealers in January 1995, and in 1970, 1980 and 1990
- Single or multiple-tier networks
- Assessment of numbers entering and exiting franchise each year
- Breakdown of ownership of dealers (family, private group, public group, branch)
- Average annual sales per dealer
- Average percentage of dealers sales accounted for by new cars, used cars, service, parts sales
- Regional offices to handle dealer management, number of offices, staffing levels,

divisions of responsibility

Franchise agreement

- Nature of franchise agreements
- Determination of territories, including areas of disagreement
- Dealer standards
- Type of sales targets operated
- Termination of dealer contracts

Dealer support

- Inventory control and physical distribution
- Rebate system

Dealer relations

- Measures to evaluate dealer performance
- Retail price setting and potential for volume discounts for major purchases
- Involvement in leasing, fleet sales and daily rental

Evolution of the franchise system

- Dealer groups, including advantages and disadvantages, and optimal size
- Dual-franchise dealerships and multifranchising, including advantages and disadvantages, and the 'car supermarket' scenario
- 'Auto park' concept, including advantages and disadvantages, and the UK 'motor alley' evolution
- Dealer diversification and the prospect for new entrants

Manufacturer - dealer relations

- Overall opinion on manufacturer-dealer relationships
- Role of branch outlets
- Financial and managerial support from manufacturers to dealers
- Suggestions for improving dealer profitability
- Role of dealer councils
- Role of the manufacturer and dealer UK trade federations and the relationship

between them

- Modifications to franchise contracts to reflect the new Block Exemption

Other

- Impressions of other markets
- Impressions of the US-Japan auto talks
- Prospects for further renewal of the Block Exemption

2. QUESTION LISTS FOR DEALERS

Company profile

- Dealer type, including size and ownership

Sales activity

- Sales performance, including sales by department (new cars, used, after-sales, etc.) and approximate sales-profit ratio
- Franchise portfolio of dealer, including future plans
- Average salesman salary, including percentage based on sales commission
- Recruitment and training methods

Franchise agreement

- Nature of franchise agreements
- Determination of territories, including areas of disagreement
- Dealer standards
- Type of sales targets operated
- Termination of dealer contracts

Dealer support from the manufacturer

- Inventory control and physical distribution, including lead times, stock levels and expected future changes
- Advertising types used
- Rebate system

Manufacturer - dealer relations

- Retail price setting and potential for volume discounts for major purchases
- Involvement in leasing, fleet sales and daily rental
- Overall opinion on manufacturer-dealer relationships
- Role of branch outlets
- Financial and managerial support from manufacturers to dealers
- Suggestions for improving dealer profitability
- Role of dealer councils
- Role of the manufacturer and dealer UK trade federations and the relationship between them
- Modifications to franchise contracts to reflect the new Block Exemption

Evolution of the franchise system

- Dealer groups, including advantages and disadvantages, and optimal size
- Dual-franchise dealerships and multifranchising, including advantages and disadvantages, and the 'car supermarket' scenario
- 'Auto park' concept, including advantages and disadvantages, and the UK 'motor alley' evolution
- Dealer diversification and the prospect for new entrants

Other

- Impressions of other markets
- Impressions of the US-Japan auto talks
- Prospects for further renewal of the Block Exemption

3. QUESTION LISTS FOR TRADE FEDERATIONS*Background information*

- Membership details
- History of the federation

Evolution of the franchise system

- Dealer groups, including advantages and disadvantages, and optimal size
- Dual-franchise dealerships and multifranchising, including advantages and disadvantages, and the 'car supermarket' scenario
- 'Auto park' concept, including advantages and disadvantages, and the UK 'motor alley' evolution
- Dealer diversification and the prospect for new entrants

Franchise agreement

- Future prospects for exclusivity
- Nature of franchise agreements
- Determination of territories, including areas of disagreement
- Dealer standards
- Type of sales targets operated
- Termination of dealer contracts
- Modifications to franchise contracts to reflect the new Block Exemption

Manufacturer - dealer relations

- Overall opinion on manufacturer-dealer relationships
- Role of branch outlets
- Financial and managerial support from manufacturers to dealers
- Suggestions for improving dealer profitability
- Retail price setting and potential for volume discounts for major purchases
- Inventory control and physical distribution, including lead times, stock levels and expected future changes
- Prospects for in leasing, fleet sales and daily rental markets
- Role of the manufacturer and dealer UK trade federations and the relationship between them
- Future of the franchise system

Other

- Impressions of other markets
- Impressions of the US-Japan auto talks
- Prospects for further renewal of the Block Exemption

APPENDIX XII

SELECTED TRANSCRIPTIONS FROM THE SECOND INTERVIEW PROGRAMME

The following consists of three transcriptions from the second interview programme. These have been anonymised and, in some instances, edited in order to respect the confidentiality required by ICDP and its sponsors.

XXX (TRADE FEDERATION) - INTERVIEW NOTES

OPINION ORIENTED QUESTIONS

B. Evolution of the Franchise System

- The development of dealer groups has been a UK phenomenon - they are not numerous in continental Europe - this has been due to the investment climate in the UK, and to the availability of capital in the City.
- The advantage to the business, especially if the group has volume franchises in a number of locations, is that they can capture large sections of the market and the population as customers. The top 200 groups represent 30% of franchise coverage and 47% of new car registrations - these figures are increasing at the moment.
- The groups will continue to grow according to the typical business pattern of merger and acquisition. For some, such as Inchcape, the number of outlets has stabilised despite the group having continued to take over smaller operations - a process of rationalisation has led to the disposal of peripheral outlets - the groups are finding the critical level of dealers necessary to operate effectively.

Do the manufacturers restrict the number of franchises any one group can have?

- This is outlawed in the new Block Exemption, although several companies used to do it (Ford had a 2% limit). The original rationale was to prevent the distributors from becoming too powerful, but in reality the groups want to have a portfolio of different franchises anyway - some of them will be doing well and some badly at any point in the cycle.
- Multifranchising has clear benefits to the dealer in terms of profitability, and manufacturers have now come to accept that some of their dealers may turn dual, providing that there is no clash with the other brand offered. For instance, not many volume franchises would allow a dual with another volume brand.

- Multifranchising is expressly allowed in the Block Exemption anyway, so the major impact will be in continental Europe where dualling has yet to develop.
- In 1994, 18% of sites were multifranchise (2 or more franchises) - the prediction for 2000 is 30%. However, the number of sites with 3 franchises or more is still relatively low - 3-4%, so the vast majority are 2-brand outlets. A lot of the manufacturers have encouraged their dealers into other programmes, such as used cars, in order to try to keep them profitable and therefore exclusive - trying to put off the day when their dealer has to take on another franchise.
- Experience suggests that car supermarkets would not work in the UK - the Asda experiment failed, and a similar experiment in Germany has not been very successful.
- There is a split view concerning autoparks. They are certainly better for the consumers, allowing easy access and the chance to compare different makes, but does the customer actually buy like that? Believes that the majority of customers have already made most of their decision of what they want to buy - price range or model - before they come to the dealer, so it is not possible to assume that they will naturally pick and choose from the different makes at the autopark. Many of these developments have occurred because the dealers have been forced to move to the edge of town by town-centre planning restrictions (noise, building use, etc.). The biggest problem is intra-brand competition, and customers will shop around between different dealers of the same make looking for the best deal. Very large autoparks, say with 13 franchises, would not work unless they have something special to offer to the whole family that would make it worth them having a day out there - consumer add-ons like shops and restaurants that would make it more than just a trip to a dealer.
- There is confusion amongst the consumers as to whether they would get a good deal at such an outlet
- the majority at the moment prefer to go to their local dealer, who they know, for local service.

C. *Franchise Agreement*

- The Selective Distribution debate has been a very European phenomenon - the system is accepted as a fact of life elsewhere in the world.
- The XXX believes very strongly in the system as a means of protecting the dealer's investment and the customer's level of service.
- There is still a big power differential between manufacturers and dealers - manufacturers are now global and so even more powerful than they used to be.
- XXX is not convinced that the option of using a pure franchise agreement (like McDonalds) would be beneficial for the consumers - even though, in the UK, BMW would like to try it. Many dealers now resemble a pure franchise operation as the manufacturers have stipulated that all of the network should use the same sort of name - Nissan Coventry, Nissan Birmingham, Nissan Warwick, etc. - and look identical. This pure franchise option has been outlawed in the new Block Exemption.
- It is inevitable that territories will have to grow larger if dealers are to be profitable, with certain guarantees and restrictions, like the Saturn arrangement. But Saturn was a completely new product and a

limited range and given to a dedicated network starting from scratch. Certain elements of the Saturn approach have been adopted already - fixed prices with no 'haggling' and restricted model ranges with tailored specifications - this type of operation will be increasingly used here.

- The advantages of the current franchise system are that it provides for the dealer secure product supply, marketing support for the brand, other support services from the manufacturer and uniform trading terms. The dealer has his own territory meaning preferential rights to develop sales, after-sales, used car and parts operations there, free (in theory) from competition from the same brand - scope for individual initiative in most business areas. On the other hand, the manufacturers demand considerable investment from the dealer, and generating a reasonable return on his assets demands a lot of work from the dealer. Furthermore, two key elements of the business are beyond the dealer's control - the wholesale price of the product and its quality and consequent level of acceptance amongst the consumers. Are cars the only product in the marketplace where the wholesale price is non-negotiable?

- So, being a successful dealer is a question of balance, but it has been proven that there is still money to be made. The most profitable dealers tend to be those selling either specialist makes (Mercedes-Benz, BMW, Jaguar) or the cheapest brands (Skoda, Lada). The hardest franchises are therefore the volume brands, especially for an independent dealer - groups are however starting to make good money again out of volume cars now.

- Contract termination is easier here than in the US.

- The notice period in the new Block Exemption is 2 years.

- Termination is still a problem for dealers - the manufacturer can demand that they invest £100,000 in facilities computer hardware, etc., and then can turn round and terminate their contract. An international manufacturer can absorb a lot of damage, whereas an independent dealer who is terminated gets no compensation and cannot sell the franchise - this can cripple a dealer unless they are fortunate enough to get another franchise quickly.

- The Block Exemption debate is largely finished now - the definitive version of the legislation was released on 21 June.

- The XXX will spend the next 3 months looking at the legislation in close detail to be sure of what the European Commission means. For instance, regarding the dealer's ability to take on a different franchise, the new regulation requires 'separate sales premises', but nobody is sure what this means - does it mean the showroom has to have a dividing wall?

- The dealers are largely happy with the clauses on exclusivity.

- Regarding the negotiation of sales and stock objectives in the legislation, there is broad acceptance of the idea of referring to an independent expert in the event of a disagreement between manufacturer and dealer, but nobody is sure who this 'independent expert' will be. Could it be conducted by the XXX? Clarification is needed. XXX believes that manufacturers will find ways to get around these provisions as they do not break down the objectives into how they might be based - the manufacturers might for example weight targets in different ways for different calendar months, which might be unfair for dealers.

- The XXX did not agree with the clause allowing manufacturers to alter territories if they had an

'urgent need' at 6 months notice - they thought that this would have been an unwelcome opportunity for the manufacturers to take advantage of their dealers. Their lobbying was successful - this was extended to 2 years in the final version of the legislation.

- A major concern still exists around the clauses on the dissemination of technical information to independent repairers. There is a degree of protection built in to the legislation such as the ability to charge for the information and to retain intellectual property rights, but at the end of the day, it is a question of standards - there is nothing in the legislation that will guarantee the necessary standards for the operators using this information, or anything requiring them to buy the correct equipment.

- The section of the legislation on the prevention of abuses now stops the manufacturers insisting that the dealers have to take on their finance package or computer systems. This would have been an area of conflict for the groups - many operate their own group computer network which may be different from each manufacturer's system. This is an important issue given the growth of lean distribution and computer-based interactive selling methods.

D. *Manufacturer Dealer Relations*

- Whether manufacturer-owned dealers should be accepted or not depends on the motives and objectives of the manufacturer behind them. In the majority of cases, manufacturers have developed these sites in order to cover potential gaps in their coverage - such as in urban areas (London, Birmingham, Leeds, etc.) where property is at a premium. Generally, they are short-term arrangements until an alternative independent candidate comes along.

- Manufacturer-owned dealers do not have a history of being very successful - most manufacturers would admit that it takes at least 5 years to get a return from a new wholly-owned operation, and also that they, as manufacturers, are not terribly good at retailing.

- The XXX is concerned at the increase in manufacturer-owned outlets in the UK, especially if they are used for channelling direct sales or nearly-new cars (usually direct sales coming back from the customer) - in other words, as a mechanism for inflating the manufacturer's registration figures. The General Motors 'Motor Holdings' shared equity system is preferable - a short term equity holding which the dealer buys back over a period of time once they have become successful.

- The manufacturers would say that no priority is given to their branch outlets - this is difficult to prove. Members of the dealer councils are concerned because the key people on these councils are often those who run the branch outlets, and so the council is not a true reflection of the dealer body.

What about XXX plan to channel 35% of its sales through its branches?

- This, if it happens, would cause a major problem, and would alter the balance of power between the manufacturer and the independent dealers - this is already a problem for XXX in France.

- At the end of the day, manufacturers should stick to what they do best, which is producing cars.

- XXX does not really approve of the Daewoo experiment, and does not know if it will be a success. In terms of registration, it has been a success so far - they are now selling more cars than Hyundai (imported

by Lex) - in July 1995 they sold over 1000 units for the first time, and now have a 0.5% market share. However, they are buying their business - such as very favourable deals with rental companies in order to get their cars into the marketplace, and interesting consumer offers (such as replacing the car with a new one after one year) - buying market share - will this last beyond the initial 'honeymoon' period?

- Cannot see that many benefits for the consumer. The advertising is 'brilliant', but the actual product and the pricing is nothing very special. Their only unique attribute is that they are 'cutting out the middleman, the dealer', but in doing this, they are not passing on any cost saving from this to the consumer in the form of dramatically lower prices.

What about the issue of direct sales?

- Believes that direct sales should be prohibited - and that around 500,000 units per year are sold in this way.

- Also believes that there are around 150,000 artificial or forced registrations each year - 50,000 dealer self-registrations and 100,000 done by the manufacturers - this feeds on into the supply of nearly-new cars, etc.

- The XXX maintains the view that the retail customer is paying the price for the discounts given to the direct customers - the XXX would not agree! - so far this year, the fleet market has grown by 11% and the retail market has declined by 8%. Even independent analysts from outside the industry would now agree that new car prices have increased a long way ahead of inflation over the last few years, especially in the light of the abolition of the 10% special car tax - so manufacturers must be compensating for these discounts. The benefits from this tax reduction were not passed on to the dealers in the form of bigger margins or profits - the manufacturers are instead keeping for themselves a bigger proportion of the final selling price of the car - they used to get around 60% of the price, now that the average dealer margin is 10% rather than 17.5%, it is nearer to 80% of the price. In the long term, this can only damage the industry - however, some of the more enlightened manufacturers are starting to realise the need for their dealers to be profitable, and are starting to raise margins again (Daihatsu is one).

- The nearly-new car programmes started as a marketing idea copied from the US about 6 years ago. In the US, they have declined again now, and this will happen in the UK as the manufacturers come to realise that by artificially inflating the used car market they are damaging new car sales.

- Direct sales are effectively volume discounts given to fleets - some dealers are suspicious that a few selected (branch?) dealers are also getting volume discounts, but the XXX does not believe this is the case - does not think that the manufacturers could afford to give any more discounts - even though they are keeping more of the price!

- Instead of volume incentives, the car industry operates by the manufacturers holding back some of the rebate from the sale of the car to give to the dealer if they meet quality and customer service targets - this is a lot of money in some cases. It is the only industry where there is no wholesale price negotiation - in a free market economy, perhaps it is logical that there should be a volume discount...

- Direct sales are not so bad in the case of supply to the government or to the armed forces - what the XXX takes exception to are the sales to fleets where the dealer is losing out of all profits or benefits (even

servicing). Needs to be a system forcing these cars through the networks for a start.

- The average lead time varies significantly from manufacturer to manufacturer - between 6 weeks and 3 months.
- At the end of the day, dealers are in business in order to make money, so the single biggest problem at the moment is the lack of profitability in new car retailing - this situation is actually getting worse not better. To improve things, there has to be a better working relationship between manufacturer and dealer - at the moment there is still a large amount of distrust between the two sides.
- At the moment, the UK industry is going through an interesting period - there are still new franchises coming into the marketplace - XXX believes that there will be a greater number of manufacturers selling an average number of cars in the future - the major volume sellers will see their sales decline, and some of the smaller operations and specialist makes will experience a growth in sales - leading to more companies around the median mark.
- Overall, there has to be a recipe for a closer working relationship - the market is getting even more competitive, and the number of outlets will continue to decline (especially in continental Europe - the UK already has a relatively lean distribution structure) - the dealers who remain will inevitably have to maintain a better relationship with the manufacturers.

XXX (DEALER GROUP) - INTERVIEW NOTES

OPINION ORIENTED QUESTIONS

A. *Evolution of the Franchise System*

Is each dealership a separate company? Is this the same for all dealer groups?

- There are two schools of thought on this - and this question helps to explain the difference between the way most big dealer groups operate and the way XXX wants to operate.
- Most dealer groups do not understand the scale dynamic involved in selling cars - scale has arrived in other areas of retailing, but is still relatively new in cars - you need to think big but act small. Most dealer groups think big and act big - XXX likes to disassociate itself from them.
- Large groups usually start from the premise of how they can avoid losing money, not how can they make money, so their whole culture is based on mistrust - driven from the centre, not allowing people on the ground to make mistakes and to learn. They think they need to have a standard way of doing things across the group so that they know they are in control - so they try to make things uniform - this means they have to feed in expertise from headquarters into each branch to make everything uniform. In practice, what this concentrating on cost instead of value leads to is a restraint on what they can actually pay to their people -

eventually, following this route leads them to want to cut costs. XXX, for instance, is constantly looking for ways of cutting costs, like having functional managers or getting the sales managers at the dealerships to do the administration - this stops them from concentrating on their local market and how many sales managers are good at paperwork? Then for (XXX group for instance) they try to cut the number of actual salesmen by employing staff who 'meet and greet' the consumer and then pass them on to the 'deal facilitator' for the actual sale (like Daewoo does) - they are doing this because they want to take costs out, but in doing so they are deskilling their business - the good people leave, sales go down, so they have to look to reduce costs even more. XXX also had 65 dealer principles reporting straight to the director - this proved to be impossible for the director to cope with, so they had to introduce sub-directors to cover each activity area (sales, after-sales, IT support, etc.). All that this does is to alienate the centre from the dealerships, increasing the distance between the two. For XXX, success means reducing the number of people employed at headquarters from 240 to 160, XXX has 178. These groups therefore have a culture that is remote from the customers.

- The XXX philosophy is very different - a local market approach - the centre develops a business blueprint, an advisory collection of best practice ideas for the dealers to use if they want to relating to sales, after-sales, used cars and marketing, and a standard way of accounting across the group, but that is all. They then require each dealership manager to own his local business, be the champion in his own area. Whilst XXX may pay its dealer principles £30,000 per year, XXX may pay a basic salary of £45,000, perhaps £25,000 more if he performs, but along with that he owns the problem - the dealership is his responsibility alone - this way he needs less managing. There are also cluster managers for each area where a number of dealers are owned (XXX, XXX), and this will be extended to XXX for example when the group has more dealerships there. These local area managers know the market intimately, are part of the golf club, the football club, etc., and so really know what that local market needs - supports local activities, etc. In the future, the group will move to having 6 or 7 of these clusters, so 6 or 7 cluster 'kings' who will each be responsible for the group dealerships in that area. They will in turn have very powerful local champions owning their franchises.

- Each individual dealership therefore recruits its own people, fires them, deals with its own marketplace, manages its own advertising, produces its own advertising, etc. - and the 'champions' are profit accountable. If they do badly, headquarters will try to help them, if they do well, they keep the winnings...

- So, the normal dealer group operates like a pyramid structure - XXX does not. XXX will not get rid of a dealer if it does not immediately make a profit or take money off the dealer if it earns too much. The whole philosophy is based around local ownership and local territory - and so not relying on fleet sales like XXX or XXX or XXX do.

- The number of single owner-driver outlets will continue to decline - especially in cases where the brand is not selling enough to make a profit - these brands will need strong relationships with the public dealer groups - they feel that the large groups have more capability to cope with the lower profitability. The quality brands usually perform better in this respect - have better profits on sales - they are becoming very critical of the public groups. This is because the manufacturers evaluate dealers by measuring registrations and market share, and also customer satisfaction (CSI) - owner-driver outlets consistently perform better at

CSI than the groups - the large public groups come out with grand plans each year saying how it will all get better, but it never does get better because of the philosophy problem - a remote dealer with no power and a distant headquarters ordering him around has little incentive to perform well. If the dealer is well-looked after, empowered and respected - set free and managed as a portfolio of individual business as with XXX, then he likes it and performs much better - and customer satisfaction goes up as well.

- XXX goal is to be in the top 10% of CSI-rated dealers for all the franchises they represent (they are nearly there) - this makes the manufacturers come back and ask them to take on another site... The group already sells 2.2% of all XXX in the UK, and XXX wants them to increase this to 5% - by terminating some of the public dealer group franchises because they are simply not delivering private sales in their own territory (as opposed to fleet sales) nor high CSI ratings.

- Following this trend, the public groups will likely be left with the non-performing volume franchises, as the specialist manufacturers will see that the owner-driver type outlets can perform better - if they can find a way of solving their cash shortfall problems. This is where XXX can step in and take over the dealer, providing the money needed to get things moving. For instance, XXX is currently targeting a XXX dealership which has 2 good sites, but cannot afford to fill its used car lot with cars - it has no money. XXX knows XXX is a good brand (XXX is developing the models), so wants to take over the dealer and build up the sites, maximising the used car potential etc. Unless the individual owner-driver is very fortunate in funding terms, they will have real problems in the future - it is not possible nowadays to set up an operation to represent a quality brand for under £1.5 million.

- The XXX and XXX operations across the road have separate showrooms, but a shared workshop. The group is also due to open a XXX and XXX satellite operation covering 2 territories housed together in one building, but the facilities will look like 2 dealerships with 2 parts desks, 2 service receptions, etc. - the customer-facing aspects will look separate.

- XXX has yet to see a successful selling concept which blurs the edges of the brands - brand A versus brand B (i.e. putting different brands together under the same roof). For instance, Volkswagen and Audi dealers were never very successful when they were together, but are much better now that Volkswagen have decided to separate them. The staff had fallen into the way of thinking that the cars were all the same, just with different prices - this sells both brands short. It is possible to combine administration and parts operations. etc. - XXX parts van have the brands of all the dealers on them. Otherwise the salespeople are selling more of a commodity and less of a dream, which is what retail customers really want to buy - and dealers are giving their margin away if they do this.

- XXX runs two sorts of used car operations depending on the age of the car. The first is dominated by the brand at the franchise, the cars are between 1 and 3 years old, below average mileage, with long guarantees and everything checked over - used car selling with the fear taken out - but this makes the prices higher. The second is a higher mileage, lower price operation called XXX - cheap cars, short guarantees, cheap finance. all the advertising is price-related (monthly or weekly payments, etc.) - a different market.

- At the sites, each brand has its own premium used car operation, and when there is room there is a separate XXX area with its own colour scheme and signage - aggressive green and yellow.

- Believes that the manufacturer used car packages are good for laundering self-registrations, but do nothing to help for example, a XXX dealer who has a used XXX to sell - the customers will not go to a XXX dealer to buy a XXX.
- XXX is a fan of having a dedicated area in the town for motor retailing - such as the motor alley concept that has grown organically. When he was at XXX, they thought that if a rival retailer set up in an out-of-town unit, it would kill their sales, whereas the best thing to do was to join them - 2 stores together would pull customers from further afield - volume would increase.
- With this in mind, 2 more dealerships will open within 1 mile of the XXX 4 in January 1996 - customers will come to the motor area of town and look at several dealerships - it is more convenient for them.

Do people shop between your brands?

- If a customer leaves XXX and heads across the road to XXX, all we do is telephone them to let them know what part-exchange has been offered! Developments like Lakeside have been oversold, will drive 50 miles to look at the different brands and talk prices - but they will then return to their local dealer and ask him to match the price. People will not travel 50 miles to actually buy - they would not want to drive 50 miles every time they wanted to have the car serviced. This is why we prefer to be attached to a local area.
- The XXX multifranchise operation will succeed because the group is part of the XXX local fabric, and the group is a massive employer there - but this branding can only work locally - it would fail as XXX Birmingham because nobody would know them there. In this way, some similar experiments such as the XXX (another plc dealer group) 'motor villages' have not succeeded because the brand meant nothing where they were. The retail concept is a good one, but you have to be careful with the brands - a 'XXX Automall' would be doomed! This is why we prefer the natural motor alley or sites with separate brands. The group is happy to locate in motor alleys, even if there is competition there - because it makes the customers come.

BACKGROUND INFORMATION

E. Manufacturer Dealer Relations

- If volume discounts were given, the marketplace would change very significantly - however this is very unlikely. The manufacturers are paranoid about power and control - they would not want to give a discount to 5% of the biggest sellers as it would disadvantage the remaining 95%, who would go into a decline or abandon the franchise - the network would fall apart. However, can understand the temptation for the manufacturers, especially if the groups were performing as well as the independents.
- However, even a group like XXX is largely inconsequential in the grand scheme of retailing. A retail chain in the UK needs at least 450 outlets in order to get economies of scale on the advertising it will need to drive customers through the outlets and to sustain a profit. XXX has 120 outlets, and this may well decrease as the manufacturers get more concerned about power and not wanting any one group to become too

powerful in their network - and XXX also only has one outlet in each town (mainly) compared to a local group like XXX, they will never have the same influence on the local market.

What about direct sales?

- XXX thinks he is one of the founder members of the UK direct sales complainers club! All the volume manufacturers like to talk about how they are moving to lean distribution - but in conducting direct sales they are showing themselves to be still dominated by stock-push - product viability is still evaluated in terms of units that will be sold. This is easy if the product is competitive, but when it is not, they are pushed into self-registrations, and into giving big discounts to fleets and rental companies. What is wrong is the degree of difference in the margins - XXX gave a XXX % discount to XXX who thus became car launderers for XXX, whilst the dealers operate on 10%.

- Direct sales are like a drug - the manufacturers have become dependent on them - and they push prices of private cars up and displace sales from a new car to a 2-week old car - destroying the market. These discounts should be rebalanced, but this would need to be multilateral (all the guilty manufacturers would have to do it at once) - and this would never happen because each headquarters would come back and say they wanted to wait until next month, or that they needed a bit more volume - their circumstances would always be different.

- The release of these cars as nearly-new used cars through the networks is a help.

- It is noticeable how the quality franchises - BMW, Mercedes-Benz and Land Rover for example, have never acted in this way. For instance, BMW is currently running out the old 5-Series, but this is being down by raising equipment levels to attract customers, not by offering discounts - in this way the brand is not devalued when the new model comes along. XXX is suspicious that XXX may be about to start 'tactical bonuses' as they chase volume for their XXX, and is concerned about it.

- The August registration system does not help - just as retail customers wait until the January sales to buy electronic goods despite all the 'good' deals available in the run-up to Christmas, or the way people now book their holidays as 'last-minute' bargains instead of months ahead, so car buyers have become educated and no longer flock to the dealer to get their car on 1 August, but come along a few weeks later to get a good deal on the stock that the dealer had got in supposedly to cover the early August rush - the impact of 1 August is decreasing. All the manufacturers come up with great schemes, but they have no effect because everybody is doing it, so they knock some more off, and then some more... August is therefore a giant contest for the manufacturers and dealers - not to increase their market share overall, but just to prevent losing sales to another brand or to the neighbouring dealer of the same franchise - treading water. Some order needs to be brought into the marketplace to stop margins being destroyed in this way and to stop intra-brand competition.

OPINION ORIENTED QUESTIONS**B. *Manufacturer Dealer Relations***

- A lot of manufacturers are trying to help their dealers build their profitability - but the dealer's biggest competitor is the next dealer of the same franchise.
- The manufacturers are therefore slowly learning that this will mean fewer retailer relationships with the right kind of retailer - larger territories, tougher measurements of success (customer loyalty and satisfaction and market share) to ensure the remaining dealers are top quality. This is easier for the specialist franchises like Volvo or Land Rover who only have relatively few dealers - the volume franchise dealers are often far too close together - the customers wander round getting £50 pounds more here, £100 there - it is very difficult to add value in this situation.
- The relationship will always be unbalanced - the manufacturers holds all the shots, but it is how they use the bullets that matters - managing the relationship properly. The more enlightened manufacturers are moving towards a more participatory role for their retailers. XXX believes the manufacturers should allow the dealers to be in full ownership of their operation, but that they should be set tight conditions.
- This means larger territories and insisting on a proper system of hubs and satellites. The dealers can then put in the sophisticated systems at the hubs, modem links to the satellites - taking costs out of the satellites by reducing their overheads - these could then make £100,000 each per year and the hub can make £400,000. This needs the dealers and the manufacturers to plan together. The customers get better service - the dealers are under heavier threat from the manufacturer if they do not deliver, but they will want to deliver because the profitability is there - the right basis for a good relationship. This is coming more and more from some of the specialist brands.
- However, those manufacturers which are just chasing market share at all costs - be it new cars, used, after-sales, including all tactics like direct sales - then dealer profitability is destroyed. For example, XXX will say that they are doing well because their market share has increased, but this has just been during the good times, and their dealer profitability is dreadful. They want their net profit on sales to be 1.5% - currently it is 0.7% - and they are pushing their sales through the branch outlets, which just makes things worse. We can deliver 3% with a manufacturer when we work together. XXX and XXX are the same - despite the promises about customer service, what they really want is market share, mostly to keep the factories going - dealers too close, etc.
- The XXX branch dealer in XXX started advertising 'XXX direct cars' (without XXX approval) - until the rest of the dealers complained and it was stopped.
- So, branch dealers can be a dangerous phenomenon if they are not well controlled, but XXX is not too worried about them because they are usually sloppy - another matter if they are getting preferential treatment.

XXX (NATIONAL SALES COMPANY) - INTERVIEW NOTES**B. Franchise Agreement**

- XXX does not object to 'semi-detached' dual dealerships - if an individual owner-driver approaches them wanting to take on another dealership, they will work through the issue with him - but would object to a dealer selling another make from the same showroom.
- Around 10% of XXX dealers are multifranchise - there is no one predominant partner, although Rover, Seat, Nissan and Citroën are examples - Rover is the brand most often seen alongside XXX.
- Selling to customers outside the territory is allowed, advertising activities outside the territory are currently prohibited, but will be allowed under the new Block Exemption.

Do you have a different rebate for a sale to a customer from inside as opposed to outside the territory?

- No - this would be illegal under the Block Exemption.
- Territories are generally organised along post-code boundaries (like most manufacturers), although there are some 'open' areas where dealers have left or where there is a history of non-representation. XXX will confer with the dealer if they want to alter the territory. There is no real friction with dealers regarding territory.
- XXX do have dealer standards relating to signage, furniture, etc. - they do not require that their dealers get BS5750 certification, although one-third have got it anyway - believed to be more than any other network.
- XXX will only consider terminating a dealer's contract if they consistently perform badly or do not show full commitment to the franchise - just missing targets would not be enough.

C. Dealer Support

- XXX are currently rethinking their distribution system - they currently operate a 'traditional' system - 3 import centres (XXX, XXX and the XXX) which receive and forward the cars on to the dealers, who still carry the burden of physical stock. Changes will be introduced, but not before 'sometime next year'.
- Incentives are offered to dealers for achieving volume targets, and also for achieving quality and CSI (customer satisfaction) target.

D. Dealer Relations

- Customer standards and business standards.
- XXX conducts test-shopping on all their dealers. Every dealer is visited a number of times per year (which is divided into 3 four-month segments) depending on the size of the dealer - the dealers are warned beforehand that they will be visited soon, and the visits (to the showroom) and telephone calls (to all

departments of the dealer) are not made when the dealers are likely to be at their busiest. The results of these visits are linked to that dealer's CSI score and are published to the network - they are then discussed with the dealer if problems are highlighted. XXX believes that this system is fair on both sides - for example, if the dealer passes the test shopping exercises, yet its CSI rating is low, then XXX standards must be wrong! - the system runs in a similar way to pure franchising in this respect. Most manufacturers just rely on CSI, which does not highlight areas where the dealer was not at fault - the dealers have reacted positively to this system, which was only started this year - and aims to get closer to what the customer is looking for.

- Dealers are also measured in terms of their local market penetration for new car sales, service penetration, parts turnover and used car volume.
- XXX does not control the real retail price at which the dealers sell the car to the customer - they just ask their dealers to be sensible with the discounts they offer, but the market pressures dictate this - XXX would prefer that these discounts are not too high, so that the dealer can make some money.
- All the dealers receive the same margin no matter what their annual volume, and all pay one transportation fee for their cars wherever they are located (except the Highlands and Islands of Scotland).
- Fleet sales do get 'different' discounts.

What level of discount do you offer to the fleet customers?

- XXX does not conduct many direct sales as such - approximately 5,000 out of 114,000 annual sales - these are to rental companies and are decided at a European level by XXX. Everything else is conducted through the dealer network.
- The level of additional margin that the fleet customer might get would depend on the size of the order, how long they will keep the car, whether XXX are going to buy the car back, etc.
- Leasing activities are conducted by a sister company, XXX, which is a partnership with XXX and the XXX - they have a leasing and contract hire arm. Dealers also sell a lot of cars to other leasing companies.
- Around 15,000 cars are sold to rental companies annually - this includes local rental fleets. This is difficult to determine because the dealers can sell to whoever they like.

Do you buy the cars back?

XXX only buys back cars when they were sold directly - these cars are then either sold through the branch dealers or auctioned to the rest of the XXX dealers. When the car was supplied by the dealer, the dealer has the choice of whether he wants to promise to buy the car back or not.

OPINION ORIENTED QUESTIONS

A. *Evolution of the Franchise System*

- XXX has a good relationship with the dealer groups, and thinks that their franchise is currently a desirable one for the groups. They have not experienced any great disadvantages.

- XXX believes that the groups will grow bigger in the future - certainly by another 10% - the total number of outlets will also increase, but the number of dealerships will decline (more outlets per franchise - hubs and satellites).
- XXX would not be supportive of the car supermarket idea - believes that the concept would not be good for the customers - they would not want to choose cars like they choose white goods - the message for the customer is unclear.
- Does not think that there have been many successful autoparks yet (several different dealerships at the same site), but does not have any real objection - XXX would only refuse if the cars were going to be placed under the same roof - otherwise, if an autopark represents the best opportunity for XXX to be successfully represented in that area, then they would go along with it. For instance, they have an independent dealer in Northern Ireland who has an 18 acre site and 8 franchises in separate buildings, including motorcycles and used cars. The concept is also much less developed in continental Europe.

B. *Manufacturer Dealer Relations*

- XXX believes in manufacturer-owned dealers - this is obvious as they have their own! In the UK, and in Japan, the issue has emerged recently within the context of trying to limit the power of the manufacturers.

What about the Daewoo system in the UK?

- XXX believes that Daewoo's experiment is a brave one, and that they have the best chance of success of any of the manufacturers because they are able to start with a clean sheet. However, he does not quite understand the shared servicing deal with Halfords - it is usual for the manufacturer to want to protect its own brand, not see it subservient to another - he does not believe that the customers are being given a clear message when they go to a Halfords superstore to get their Daewoo serviced (the 'motor shows' are much clearer in this respect), or a particularly differentiated brand - they run the risk of diluting their brand.
- The relationship with the independent dealers used to be pretty bad because of the presence of branch operations - today it is much better - the dealers would dislike the branch's aggressive selling activities. The branch dealers tend to be very large, selling 3000 cars a year each (so they are bound to be aggressive), but they are treated in exactly the same way as the independents - they are part of the area system, and are also members of the dealer association. They are now seen as professionally-run, and suspicion and thus friction has reduced. XXX wants to increase marginally the number of branch dealers in the future. "We try not to work behind closed doors and in secrecy any more."
- XXX franchising policy is to have independent retailers wherever they can find them, but wherever this is impossible (major urban centres), they will have branch operations instead - independent dealers are the preferred option.

Will more manufacturers become involved in branch selling?

- The manufacturers are already involved, even if it is hard to tell in some cases exactly what their involvement is (XXX, for example). XXX was one of the first, along with XXX and its XXX chain (which

even has a XXX dealership now!).

- Manufacturers should assist the network to develop dealership expertise in all areas of business - new car sales will not return to being profitable in the short term - by increasing parts turnover, service penetration, etc. - and improving customer satisfaction - the aim is to get more from the dealer's assets, so that the dealer company grows, but the asset base does not, so that they can deliver more profit.

- Changing the supply system would help - moving away from holding stocks of cars at the dealer. At the moment, a large proportion of XXX dealers are on a daily stock order system - fewer stocks and quicker turnover. It is only a matter of time before an international pipeline is set up, and the dealers have direct contact with the factory for ordering. Already they can amend orders until relatively late in the cycle.

What about the unbundling of dealerships into hubs and satellites? Is this a rebirth of the two-tier system that some manufacturers, including XXX, still have? Will the independent second-tier dealers operate satellites for the main dealers?

- XXX had a true two-tier system until 1978, with distributors and dealers.

- Manufacturers like XXX and XXX are now encouraging their main dealers to set up and to own satellites - this is the main difference from the old two-tier system, where the sub-dealers were separate. XXX is not actively pursuing a policy regarding the ownership of the outlets, but the system is partly in place for this to happen.

- This trend has grown from a need identified in the mid-1980s for additional service bays - XXX had some service only 'XXX' - but when these type of operation opened, they generally discovered that they had some demand for new car sales as well - thus they became retail dealers. These are generally in Wales, Scotland and around London - and so are strategically-placed.

- XXX has produced its new dealer agreement in draft form, and is currently discussing it with the dealer association.

- Dealers are not forced to join the dealer association.

- Each area of the 11 has one representative of the dealer association who meet with the area operations manager 4 times per year.

- XXX also has a dealer panel, which consists of the 11 dealer association area representatives plus the 8-person dealer bureau - they interact with the board of XXX. The dealer bureau's members are each responsible for one activity, and interact with the specific board member for that activity - the member responsible for sales interacts with XXX, the dealer association chairman interacts with the managing director, etc. This system is known as the 'shadow government' - there are regular ad-hoc talks, once-a-month bureau meetings with the board of XXX and the panel meetings (with the board and some XXX managers) once every 4 months. One of the bureau members also represents the UK dealer council on XXX.

- XXX is trying to make the dealer agreement as common as possible across Europe - does not foresee any real problems with the terms of the new Block Exemption, as the dealer recruitment is sufficiently thorough - dealers are recruited for the long term.

APPENDIX XIII

POSTAL SURVEY: THE CONCEPTS OF LEAN DISTRIBUTION

For reasons of page layout (the survey was originally in landscape format), it is impossible to reproduce the look of the survey exactly here. The following is the text lifted from the survey document, as it was distributed to respondents.

***LEAN DISTRIBUTION COULD BE DEFINED AS FOLLOWS
(WORKING DEFINITION):***

“The provision of a complete customer-determined and customer-driven mobility package, including sales, after-sales and service support, at the right place, at the right time and at the minimum cost.”

- 1) How do you rate the following statements in terms of their importance to the overall concept of lean distribution in the motor industry? Please tick the boxes**

The table is given overleaf.

Factors	Very unimportant	Unimportant	Indifferent	Important	Very important
Having the physical distribution chain and production planning driven by sold customer order pull, and not by stock push					
Having integrated computer systems which unite retailers, manufacturers and suppliers and which enable two-way order and information exchanges					
Reducing the number of model variants and specification differences					
The fragmentation of car retailing into a multiplicity of different approaches to meet the needs of different regions and vehicle types					
Establishing closer relationships between manufacturers and retail partners					
The rethinking of territorial coverage including market area approaches involving fewer individual main dealers and the dispersal of dealership activities according to local needs					
The establishment of fixed-price selling					
Having a less confrontational selling style and different reward structures for customer-facing sales and service staff					
Conducting less outlet-level marketing and more customer retention and order generation campaigns with a national or regional focus					

The survey then provided a third page for comments and suggestions, as follows.

COMMENTS AND SUGGESTIONS

PLEASE USE THE SPACE BELOW FOR ANY COMMENTS AND SUGGESTIONS YOU MAY HAVE:

- **If you disagree with any of the factors listed**
- **If you would like to suggest any further ingredients of lean distribution, along with your assessment of their state of development in the European market**
- **If you would like to put forward your own definition of lean distribution**

THANK YOU FOR YOUR TIME

Please return completed questionnaires to Andrew Tongue:

Fax +44 (0)1225 826135

**or Mail School of Management, University of
Bath, Claverton Down, Bath BA2 7AY, UK**

If you have any queries, please contact:

Tel +44 (0)1225 826826 ext.4745 or E-mail mnsagt@bath.ac.uk

APPENDIX XIV

POSTAL SURVEY: THE CONCEPTS OF LEAN DISTRIBUTION - SUMMARY OF RESPONSE TYPES

For reasons of confidentiality, as explained in section 5-3-2-2, the survey was conducted anonymously, and it is thus not possible to give a full breakdown of respondents. Nevertheless, the following is intended to provide an overview of the 44 responses received.

Responses were received from:

- manufacturers
- wholly-owned national distributors
- independent national distributors
- trade federations
- dealer groups
- a computer company
- consultants
- researchers.

Respondents were located in:

- Europe
- North America
- Japan

Respondents job titles included (in no particular order):

- Distribution strategies director
- After-sales manager
- Legal director
- Chief executive
- Marketing director
- Professor
- Logistics manager
- Used car marketing manager
- Project director
- Director of communications

APPENDIX XV

MANUFACTURER CATEGORISATION²

VOLUME	SPECIALIST	ASIAN
Renault	BMW	Nissan
Peugeot	Jaguar	Toyota
Citroën	Mercedes-Benz	Mazda
Ford	Porsche	Mitsubishi
Volkswagen / Audi	Saab	Suzuki
Fiat	Volvo	Honda
Alfa Romeo		Subaru
Lancia		Daihatsu
General Motors		Hyundai
Seat		Proton
Lada		Kia
Rover		
Skoda		
Chrysler		

N.B.

•*Chrysler*: Chrysler and Jeep are separate franchises, but are nearly always combined at distributor and dealer level

•*Isuzu*: not shown as a separate franchise, since products are sold through Opel in all markets except UK

•*Rover*: most markets have combined Rover and Land Rover dealers, although in 3 markets Land Rover has separate distributors

•Very low volume specialist franchises (such as Ferrari, Lotus or Rolls Royce) are not included

APPENDIX XVI

NATIONAL DISTRIBUTOR STATUS BY MANUFACTURER IN EUROPE, 1992³

Company	A	B	Dk	Fin	F	D	Gr	Irl	It	Nl	Nor	P	Sp	Sw	Ch	UK
Alfa Romeo	M	M	M	I	M	M	M	I	M	M	I	I	M	M	M	M
BMW	M	M	I	I	M	M	I	I	M	M	I	I	M	M	M	M
Chrysler	I	I	I	I	I	I	I	I	I	I	I		I	I	I	I
Citroën	M	M	M	I	M	M	I	I	M	M	M	M	M	M	M	M
Daihatsu	JV	I	I	JV	I	M	I	I	I	JV	I	I	I	I	I	I
Fiat	I	M	M	I	M	M	I	M	M	M	I	M	M	M	M	M
Ford	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M
GM	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M
Honda	M	M	I	I	M	M	I	I	M	M	I	JV	M	JV	M	M
Hyundai	I	I	I	I	I	JV	I	I	I	I	I	I	I	I	I	I
Jaguar	I	I	I	I	I	M	I	I	M	JV	I	I	M	I	I	M
Kia		M	I		Maz											I
Lada	I	M	I	M	I	I	I	I	I	I	I	M	I	I	I	I
Lancia	I	M	M	I	M	M	I	M	M	I		M	M	M	M	M
Mazda	JV	I	I	I	I	M	I	I	I	I	I	I	I	I	I	I
Mercedes	JV	M	M	I	M	M	M	I	M	M	I	M	M	I	M	M
Mitsubishi	I	I	M	I	I	M	I	I	JV	I	I	M	M	I	I	I
Nissan	I	I	I	I	M	M	I	I	M	M	I	I	M	I	M	M
Peugeot	M	M	I	I	M	M	I	I	M	M	I	I	M	M	M	M
Porsche	I	I	I	VW	I	M	I	M	JV	I	I	M	JV	VW	I	M
Proton								I								I
Renault	M	M	JV	JV	M	M	I	I	M	M	JV	M	M	Volv	M	M
Rover	I	M	I	I	M	M	I	M	M	M	I	M	M	I	I	M
Saab	I	I	M	M	M	M	I	I	I	I	M	I	I	M	I	M
Seat	I	I	Saab	I	M	M	I	I	M	I	I	I	M	I	I	M
Skoda	I	I	I	I	M	JV	I	I	M	I	I	I	M	I	I	I
Subaru	I	M	I	I	I	M	I	I	JV	M	I	I	I	I	I	I

3

Adapted from Harbour Wade, 1993

Company	A	B	Dk	Fin	F	D	Gr	Irl	It	Nl	Nor	P	Sp	Sw	Ch	UK
Suzuki	M	I	I	I	M	I	I	I	I	I	I	I	JV	I	I	I
Toyota	I	I	I	I	I	M	I	I	M	I	I	JV	M	I	I	JV
Volvo	I	M	M	M	M	M	I	M	M	M	M	I	M	M	M	M
VAG	I	I	I	I	M	M	I	I	M	I	I	I	M	JV	I	M

M = Manufacturer-owned; I = Independent; JV = Joint venture

APPENDIX XVII

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